FINANCIAL TIMES

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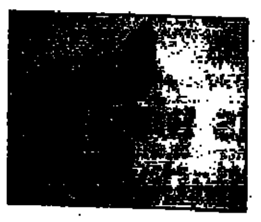
MONDAY FEBRUARY 15 1999



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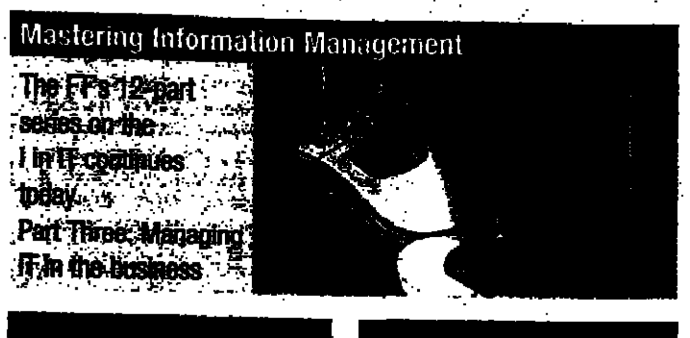


WORLD NEWS

US puts forward plan to end beef dispute with EU

The US proposed that its exports of beef and beef products to the European Union should be labelled with their national origin: Washington is seeking to resolve the trade dispute over the EU's ban on meat treated with hormones. **Page 4**

US and China press for WTO deal
The US and China are intensifying efforts to reach agreement on Chinese entry to the World Trade Organisation during a visit to Washington April by Chinese premier Zhu Rongji, US officials said. **Page 12; Determined attempt, Page 3**

Accord 'could hit farm trade'
A controversial international agreement on the safety of genetically modified organisms could jeopardise hundreds of billions of dollars of agricultural trade, the US warned. **Page 4**

Greece to buy Eurofighters
Greece's Finance Ministry approved the purchase of between 60 and 80 Eurofighters but rejected a Defence Ministry proposal to buy US and French military aircraft. **Page 2**

Russian PM backs Yeltsin
Russian prime minister Yevgeny Primakov condemned those trying to drive a wedge between himself and President Boris Yeltsin and appealed for political stability. **Page 3**

Irish PM warns Sinn Féin
Irish prime minister Bertie Ahern warned Sinn Féin there would be no Northern Ireland government set up without a resolution of the issue of paramilitary arms. **Page 5**

IMF set for Mexico talks
International Monetary Fund officials are expected to visit Mexico to open negotiations for a possible stand-by programme of up to $8bn that would help tide the country over presidential elections next year. **Page 3**

Howard warns on East Timor
Australian prime minister John Howard said political and economic instability could result from Indonesia's proposal to grant early independence to East Timor. **Page 4**

11 killed in Bihar
At least 11 people were killed in the eastern Indian state of Bihar in incidents linked to caste animosity, police said. The crime-hit state is under federal rule.

Ethiopia in fresh fighting
Ethiopia said it inflicted heavy casualties on Eritrea in fresh fighting on a new front south west of the strategic Red Sea port of Assab. **Page 4**

Threat to Rushdie reaffirmed
Iranian hardliners used the 10th anniversary of the death order against British author Salman Rushdie to reaffirm their intention to carry out the sentence for blasphemy, despite a diplomatic deal designed to end the threat.

BUSINESS NEWS

BMW faces decision over development of downmarket car

BMW is to take a decision on developing a new small car below its existing range in a move that could decisively affect Rover and safeguard its Longbridge plant in the UK. **Page 13**

Mondex International, Mastercard International-controlled electronic commerce business, will today announce a deal to introduce its smart cards and digital cash cards in Japan. **Page 4**

Telecom Italia is breaking off negotiations with Rupert Murdoch's News Corp Europe over the sale of Stream, its pay TV subsidiary, ending two months of talks. **Page 17**

Shareholders in the UK's Canary Wharf Group, owner of the 86-acre estate in London's Docklands, are discussing an initial public offering to finance the final two-thirds of a project that could be worth £4bn ($6.6bn). **Page 13**

Visa USA, the US credit card association, is to continue its brand marketing campaign, despite two executives from Citigroup, its largest member, resigning over the issue. **Page 16**

Infosys Technologies is to become the first Indian company to list in the US. The software company has filed offer documents with the Securities and Exchange Commission. **Page 16**

UPM-Kymmene, Swedish forestry group, says political and economic turmoil in Indonesia has delayed its paper and pulp joint venture in the country. **Page 14**

ABN Amro asset management, arm of the Dutch-owned bank, increased assets under management by 27 per cent last year helped by demand for pan-European equity products. **Page 17**

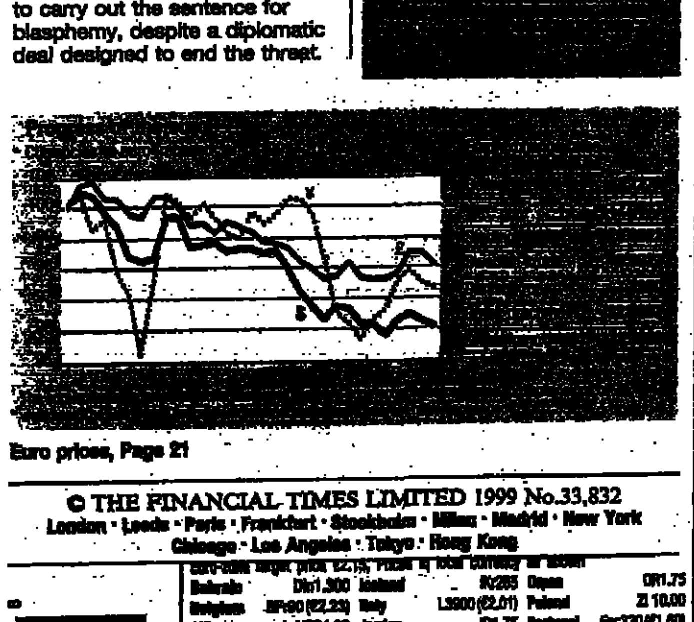
Freeport McMoRan, US mining company that operates the world's third largest copper mine, is to raise royalty payments in Indonesia in return for approval of its expansion plan. **Page 17**

The Bulgarian government has set March 18 for final bids for a majority stake in BTC, the state-owned telecoms utility. **Page 17**

Kamaz, Russian truckmaker and one of the country's largest industrial companies, has defaulted on its debts including a $100m loan from the European Bank for Reconstruction and Development. **Page 16**

Atlas Copco, Swedish engineering group, had a 14 per cent rise in operating profits, boosted by its US rental division. **Page 17**

Text 100, public relations consultancy, is likely to move from Ofex to London's main market this year. **Page 14**



Euro prices, Page 21

Volvo looks at takeover bid for Navistar

By Nikki Tait in Chicago, Tim Burt in Stockholm, William Lewis in New York and Haig Simonian in London

Volvo, the Swedish automotive group, is considering a takeover of Navistar, the US truck and engine manufacturer, in a move that could more than double Volvo's share of the North American truck market.

Senior executives of Volvo – which earlier this month agreed to sell its car division to Ford of the US for SKr50bn ($640m) – are understood to have met counterparts from Chicago-based Navistar in recent weeks to discuss a possible takeover offer.

"Volvo is looking seriously at a truck acquisition in North America; they are talking to a number of companies but the approach to Navistar is the most advanced," said one person close to the talks.

Navistar has a market capitalisation of $2.33bn, meaning that a purchaser would probably have to pay at least $3bn to take full control. However, the price could be substantially lower if Volvo were only to acquire Navistar's heavy truck activities. The US group also makes medium trucks, diesel engines and school buses.

The Swedish group's cash reserves are expected to increase to SKr60bn-SKr65bn once the sale of Volvo cars to Ford has been completed.

Stark's Component Ledger, a well-regarded Chicago-based automotive industry publication, is today reporting that – in addition to the Navistar talks – Volvo has opened exploratory discussions with Renault's RVI commercial vehicles arm over the possible purchase from the French group of Mack Trucks of the US. RVI has consistently denied any plan to sell Mack.

Stark's says that Volvo is reportedly more intent on acquiring Navistar. One possible scenario could see Volvo sell on Navistar's diesel engine operations to Ford Motor, the newsletter claims. Last year, Navistar's valuable long-term diesel engine contract with Ford was renewed.

Navistar's stock price has seen heavy trading recently, and on Friday it leapt 6 per cent or $2 to close at $35¼. Prudential Insurance Company of America holds a 7.4 per cent stake, and late on Friday, Salomon Smith Barney and Fidelity also declared stakes of over 5 per cent.

Last week Leif Johansson, Volvo chief executive, told investors that the company's increased financial muscle would be used to expand its presence in commercial vehicles. The company has underlined that ambition by acquiring a near 13 per cent stake in Scania, its Swedish heavy truck rival, for SKr5.2bn. A Volvo-Scania combination would create Europe's largest heavy truck manufacturer.

But Investor, Scania's controlling shareholder and the main vehicle for Sweden's Wallenberg business empire, has so far responded coolly.

Lex, Page 12

Israel's ultra-Orthodox Jews yesterday rallied nearly 200,000 supporters to defend the religious identity of the state against the secular supreme court and its judges. Page 4 AP

Kosovo Albanians ready to sign deal, says Albright

By David Buchan in Paris

Madeleine Albright, US secretary of state, yesterday said the Kosovo Albanians seemed ready to sign a peace settlement after she intervened in the negotiations at the French chateau of Rambouillet and for the first time brought the two sides together for face-to-face talks.

The six-nation Contact Group of mediating countries gave the Serbs and Kosovo's ethnic Albanians one more week, until noon next Saturday, to reach agreement on a three-year interim autonomy arrangement for Kosovo within Yugoslavia.

The group, chaired by Robin Cook, the UK foreign minister, and Hubert Védrine, his French opposite, claimed the first week of negotiations had helped "clear the ground". It called on both sides to agree "on the hard issues outstanding" in the remaining seven days.

"These are not conventional negotiations," Mrs Albright warned, because in the event of their failure next weekend "the threat of Nato air strikes remains real".

But a new incentive for agreement emerged yesterday at a meeting in Paris of the 15 European Union foreign ministers, who disclosed an international plan to help reconstruct Kosovo and resettle refugees with an aid programme of up to €500m (£344.5m) over three years.

"We talked about the EU's contribution to implementing any agreement. For Europe what would be important is economic reconstruction and rehabilitation of refugees," said Mr Cook.

Mrs Albright said the two sides faced "a fork in the road – with one path leading to disaster, chaos and further killing, and the other to a rational solution that will lead to peace and justice for all the people of Kosovo".

She was particularly blunt towards the Serbs, who she blamed for "the slowdown in the talks".

Serbian sources said her meeting early yesterday morning with Milan Milutinovic, the Serbian president, at Rambouillet, was "extremely unpleasant".

Mrs Albright underscored the Contact Group's emphasis on the need for full implementation of any accord reached at Rambouillet, saying that "an agreement without a strong international presence is not agreement at all".

UN and Libya near deal on Lockerbie suspects

By Roula Khalaf and David Wighton in London

The United Nations and Libya yesterday appeared close to a deal on the handover of two Libyan suspects charged with the 1988 bombing of Pan Am flight 103 over Lockerbie, Scotland.

Western diplomats said a UN legal team was drawing up papers that would put in writing an understanding reached by South African and Saudi mediators who recently held talks with Libyan leader Muammer Gadaffi.

Under the deal, the two men would stand trial in the Netherlands under Scottish law, but would serve out any prison sentence in Scotland if found guilty over the air disaster, in which 270 people died. In return, trade sanctions against Libya would end.

Persuading Mr Gadaffi to hand over Abdel Basset Ali Mohamed al-Megrahi and Lamen Khalifa Fhimah has been so fraught that the US and Britain have been careful not to show over-optimism.

But Robin Cook, UK foreign secretary, was upbeat yesterday. "It has been seven months of hard effort, but at last it looks as if we could be approaching the endgame," he said.

A British proposal to allow a United Nations observer to monitor the prisoners while in Scotland, so they are not interrogated by British or US officials, appears to have broken the deadlock.

Mr Cook said he had asked Kofi Annan, the United Nations secretary general, to "nail down" the assurances offered by Mr Gadaffi to Nelson Mandela, the South African president, who has taken the lead in mediating an agreement.

A South African official announced at the weekend that outstanding sticking points over the surrender of the two suspects had been resolved. Mr Gadaffi wrote to Mr Mandela, accepting the terms of the deal, but Kofi Annan, UN Secretary General, is expected to write to Mr Gadaffi asking for confirmation.

Mr Gadaffi has been given assurances that UN sanctions, which would be suspended once the two intelligence officers are surrendered, would not be reinstated without a new UN security council resolution.

Cracks in sanctions, Page 4

Senators urge Starr to drop new plan to prosecute Clinton

By Richard Wolffe in Washington

Senior Republican and Democratic senators joined forces yesterday to urge Kenneth Starr, the independent counsel, to drop any plans for a criminal prosecution of President Bill Clinton.

Mr Starr is reported to be considering an indictment of the president – on charges of perjury and obstruction of justice to cover up the Monica Lewinsky affair – before Mr Clinton leaves office in January 2001. The president was acquitted of similar charges in the impeachment trial last week.

However, senators of both main parties called for an end to the prosecution of the president to restore public confidence in the political process. Mr Starr still has the option of prosecuting the president after he leaves office even if he does not indict him in the next two years.

John McCain, the Republican senator for Arizona and a presidential contender for the 2000 elections, said it was time to concentrate on issues such as reforming the social security system of public pensions.

"There is an overwhelming desire on the part of the American people and the Congress to move out of this situation that we've been in," he said in an interview with NBC television. "I can't pretend to tell Mr Starr what his legal options are, but from a pure political standpoint, it is time to move on."

His comments were echoed by Joseph Lieberman, the influential Democratic senator for Connecticut, who yesterday appealed for "a little bit of space free of impeachment and prosecution.

"There is no question that the independent counsel has the power to prosecute the president, but having come through this trauma I certainly hope that if that is on his mind he does not do it while President Bill Clinton is still our president," he told CBS television.

Republican leaders appear determined to erase their image as the president's prosecutors.

Trent Lott, leader of the Republican majority in the Senate, insisted his party "must move forward now on the people's business". In his weekly radio address Mr Lott said: "With all the attention given to the trial, you might have missed what else has been going on here in the Senate."

Meanwhile, some Democrats are determined to fight the renewal of the independent counsel law, which governs the powers and appointment of prosecutors such as Mr Starr.

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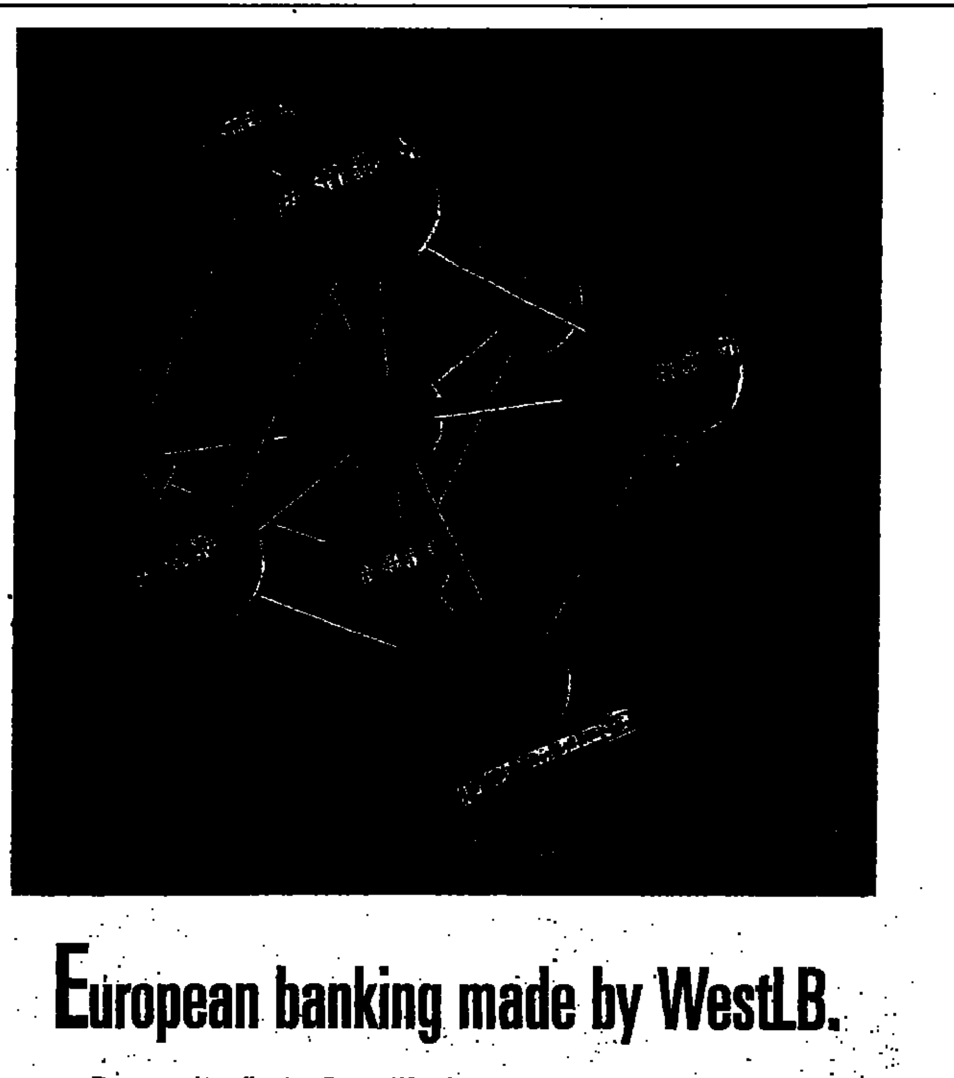

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CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320 (€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr18.00	Latvia	Ls1.65	South Africa	R16
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325 (€1.95)
Finland	Fmk13.00 (€2.19)	Lebanon	LBP5,500	Sweden	SKr20.00
France	FFr14.00 (€2.13)	Luxembourg	LFr90 (€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£80.00
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WORLD NEWS

SPD-GREEN DISPUTE TRITTIN ACCUSES SCHRODER OF ABANDONING POLICY AGREEMENTS AND AIRING DISPUTES IN PUBLIC

German coalition suffers fresh tensions

By Tony Barber in Frankfurt

Fresh tensions broke out in Germany's centre-left coalition government at the weekend when Chancellor Gerhard Schröder was accused by one of his ministers of abandoning policy agreements and airing disputes in public.

Jürgen Trittin, the Greens environment minister, made his criticisms of the chancellor two days after the Social Democratic finance minister, Oskar Lafontaine, acknowledged the government was experiencing what he called "co-ordination problems" at all levels.

The SPD-led government has been in shock since an election defeat in the state of Hesse last week caused it to lose control of the Bundesrat, the upper house of parliament, whose approval is necessary for more than half of all legislation.

Mr Schröder, the first SPD chancellor since 1982, angered his junior coalition colleagues from the Greens party by blaming the election defeat on what he called the Greens' preoccupation with minority issues.

One Greens leader, Antje Radke, called Mr Schröder's remarks "totally out of order".

Mr Trittin, who recently received a public rebuke from the chancellor for pushing his anti-nuclear views too far, said it was not surprising that the government faced difficulties when Mr Schröder dropped policies agreed between the Greens and the SPD.

"When agreements have a half-life of just a few hours, it is hard to lead a coalition successfully," Mr Trittin said, commenting that both parties were being damaged by their tendency to bicker in public.

Opposition politicians and political commentators said Mr Trittin's remarks compounded the impression of squabbling, dithering and disarray in a government that was torn between inexperienced moderates led by Mr Schröder and hotheads from the SPD's left wing and the Greens.

Mr Lafontaine, the SPD chairman who lost out to Mr Schröder last year in the race to become chancellor, said last week he bore no personal animosity towards his colleague.

At the same time, however, he is said to have complained to SPD deputies that he found it hard to co-ordinate policy when he only learnt of Mr Schröder's decisions from newspapers.

Seeking to exploit the tensions between the chancellor and the Greens, the opposition liberal Free Democrats offered to help pass government legislation in the Bundesrat as long as it was inspired by "sensible" forces in the SPD.

The Free Democrats suggested the government should revise its plans to abolish nuclear power, limit changes to Germany's citizenship laws and introduce pro-business tax policies.

However, SPD officials said they had no intention of abandoning the alliance with the Greens.

Greece to purchase European jet fighter

By Kerin Hope in Athens

Greece's Finance Ministry has approved the purchase of 60-80 Eurofighters but rejected a Defence Ministry proposal to buy US and French military aircraft because it could derail the country's effort to qualify for membership of the euro.

Officials said the Eurofighter deal amounted to about $4bn, but payment would be spread over a 15-year period after 2002, when the country is due to receive the first aircraft.

Greece is to join the consortium of aerospace manufacturers from the UK, Germany, Italy and Spain that is building the Eurofighter, and will produce parts at Hellenic Aerospace, a state-owned defence facility.

To cover the gap before the Eurofighters' arrival, the Defence Ministry had proposed buying up to 60 military aircraft from US and French manufacturers, which have traditionally supplied the Greek air force.

But these plans were rejected for fear they would lead to excessive spending overruns. If the proposal had been adopted, the budget deficit would have risen above the 3 per cent of gross domestic product requirement for euro membership in 2001, a Finance Ministry official said.

He added the Eurofighter purchase would not affect Greece's convergence effort because of the delayed timetable for payment.

The ministry has come under pressure from the nationalist faction in Greece's governing Socialist party to relax constraints on defence spending because of a perceived threat from Turkey in the Aegean Sea.

The Defence Ministry proposal covered purchases of F15-H aircraft made by Boeing, Lockheed Martin's F16-Block 50 aircraft, and Mirage 2000s made by Dassault of France. Total spending would have amounted to Dr1,200bn ($4.2bn), almost three times the Dr440bn allocation for the air force under Greece's defence procurement programme.

The Dr4,000bn programme to upgrade the armed forces over the next five years covers purchases of missiles, warships, aircraft and tanks. If the second aircraft deal had gone ahead, army and navy procurements would have had to be cut.

Akis Tsochatzopoulos, defence minister, is expected to submit a revised proposal to buy a limited number of F-16 and Mirage 2000 aircraft.

Power shake-up energises EU price competition

Andrew Taylor on the likely effects as barriers fall across Europe from Friday

Electricity liberalisation

A new light dawns for European Union electricity customers, generators, distributors and suppliers on Friday when power markets in 12 EU countries are due to open for competition. From February 19 industrial and commercial customers using more than 40,000MWh a year must be allowed to move to a power supplier other than their current regional or national monopoly company.

The prospect of competition has prompted sharp falls in European wholesale electricity prices, particularly in Germany, helped by lower natural gas prices. But there remain big variations in retail prices, reflecting energy, social and taxation policies of individual countries (see chart).

These price differentials can be expected to narrow as competition grows and industrial companies increase pressure on suppliers and national authorities to reduce energy costs in line with rivals in other European countries. The siting of heavy, energy-intensive processes such as paper making will be determined increasingly by where energy costs are cheapest.

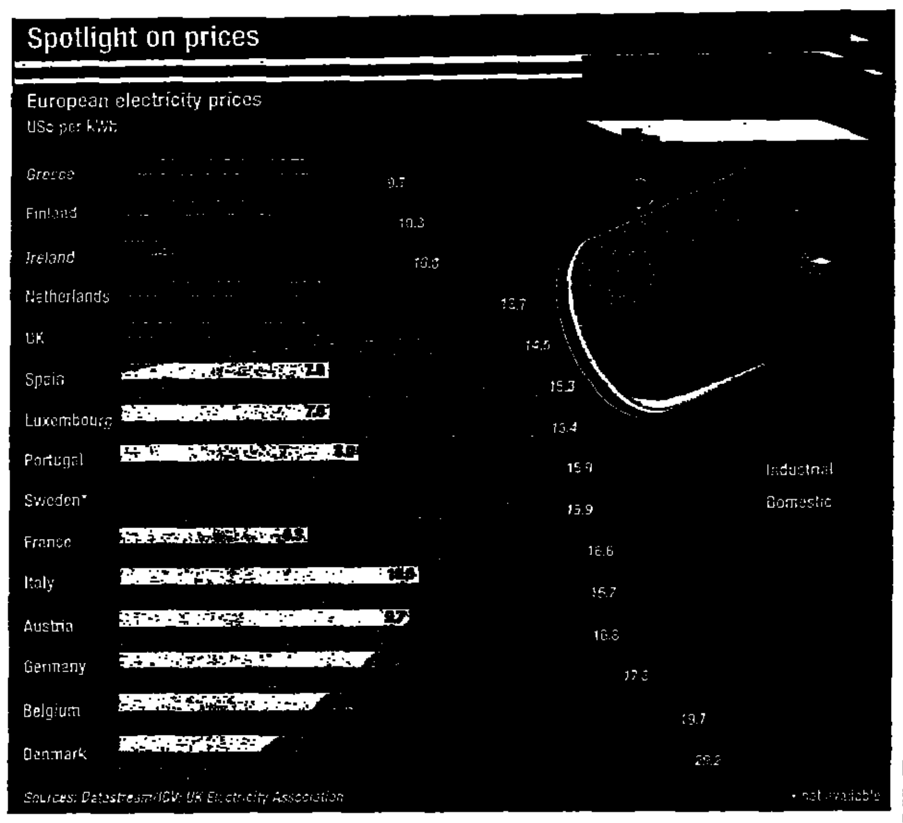
The new competition rules affect several thousand large companies, accounting for more than 26 per cent of EU electricity demand. Many countries, however, have gone further. According to the European Commission, the EU's executive arm, some 60 per cent of EU power markets will be open to competition by the time the directive comes into force on Friday.

Power markets in Scandinavia and Britain, largely open to competition for several years already, have now been joined by other large markets such as Spain and Germany. Greece and Ireland have been allowed to delay implementing the directive for two years but Belgium, which had been given a 12-month dispensation, has decided not to wait.

Introduction of the directive has prompted a surge in cross-border acquisitions, joint ventures and strategic stake building.

EdF, the French state-owned power monopoly, has bought London Electricity, the UK capital's supplier, in a deal worth $3.2bn – the largest such purchase to date. Imatran Voima (IVO), the Finnish power group, used its Swedish subsidiary, Gullspangs Kraft, to purchase Stockholm Energi in a deal worth $1.95bn.

US-style power trading markets, offering spot and future contracts, are being developed to meet the increasingly sophisticated power demands of European customers. The new Amsterdam Power Exchange is due to launch an online service on Friday. A day-ahead spot market is expected to start on May 1.



Nord Pool, the Scandinavian electricity bourse, will begin trading in euros next Monday, reflecting a growing international interest in this already active market.

There is, however, a big difference between technically allowing customer choice and actual competition. Recent attempts to change suppliers in Germany have resulted in disputes with regional transmission companies, which under the country's 1998 energy law must allow rival suppliers non-discriminatory access to grids.

Attempts by Elektromarke and Energie Baden-Württemberg to block electricity contracts won by Enron, the US energy group, and Watt, a Swiss-based power company, failed after intervention by the German cartel office.

The EU directive allows great flexibility in how countries respond to competition. EdF, for example, will continue to own the national transmission network, although this will be managed separately from its supply business. Transmission prices will be strictly regulated.

The cost of transmission will be crucial to encouraging competition, as will decisions on how best to compensate former monopolies for uneconomic investments made as a result of previous government policies.

Plans by Spain to deal with these so-called stranded costs have already led to complaints of unfair competition from companies seeking to break into the Spanish market. The Commission is not expected to rule on country plans for stranded costs until later this year.

The directive triggered on Friday is part of a series of EU moves to promote competition in the energy sector. Electricity customers using 20,000MWh will be able to switch suppliers next year, with the threshold falling to 9,000MWh in 2003. Phased competition in gas markets starts next year.

Large oil and gas companies are investigating electricity supply opportunities as they search for higher-margin downstream activities. However, the biggest pressure for change, say EU energy officials, will come from customers demanding lower prices.

Tomorrow: France steps cautiously towards an open electricity market.

Russian PM opposes Yeltsin quitting early

By John Thornhill in Moscow

Yevgeny Primakov, Russia's prime minister, has condemned the "evil intent" of those trying to drive a wedge between himself and President Boris Yeltsin and appealed for political stability to help the country claw its way out of economic crisis.

"I am categorically against the president quitting before his defined constitutional period," Mr Primakov said. "It is essential for the stability of society and for the conduct of the forthcoming elections."

The premier's public display of loyalty to the ailing Mr Yeltsin contrasted sharply with the views of many of the 150 members of the Council on Foreign and Defence Policy, who met the prime minister at the weekend. A discussion paper drawn up for the meeting of the independent think-tank, which includes a broad cross-section of the political establishment, urged Mr Yeltsin to quit before his term expired in the summer of next year.

In his speech to the council, Mr Primakov said his government was still searching for ways to haul Russia out of its financial crisis. But he expressed confidence that it could strike a critical deal with the International Monetary Fund.

He said the government was now targeting a primary budget surplus (before interest payments) of 2.3 per cent of gross domestic product – compared with the 1.7 per cent pencilled into the draft budget – in an attempt to satisfy the IMF's demands. But he said it was impossible to run a 4 per cent primary budget surplus as recommended by the IMF.

"We are doing everything possible to meet the IMF's demands where possible... They are demanding more, but we cannot manage it."

Mr Primakov said a deal with the IMF would help clear the way for the release of World Bank loans and a bilateral credit from Japan.

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Private banks respond to fierce rivalry

By George Graham

Fiercer competition has sounded the alarm in the once-sleepy world of Europe's private banking industry, forcing financial institutions to shake up their businesses.

An annual survey of the sector conducted by PwC, the accountants and management consultancy, found that 82 per cent of the 108 private banks questioned plan significant operational changes to cope with intense competition. Another 14 per cent go further and plan a fundamental change in strategy and positioning.

"Because the industry has become more competitive, you are left with winners and losers, and that is going to lead to more consolidation," said Ian Woodhouse, the PwC partner who conducted the survey.

Private banking, or the provision of wealth management services to rich individuals, has been an attractive target for banks in recent years. In Europe alone an estimated $6,000bn is held by people with more than $1m of investable assets, offering banks the prospect of growing revenues with less volatility and less capital required than, say, investment banking.

More than half the chief executives questioned by PwC expect revenue growth in excess of 16 per cent this year, with banks managing more than $50bn of client assets the most optimistic.

But new competitors such as US investment banks have made the market tougher, and new customers are demanding better investment performance than the "old money" families which still make up the largest segment of clients.

Banks responding to the PwC survey said "new money" active investors now made up about 28 per cent of their clients, but they expected that percentage to rise to 38 per cent in five years.

Banks were now paying more attention to their costs, with most concentrating on reducing expenses by investing in IT and by managing staff costs. But Mr Woodhouse said the survey had revealed wide variations in costs and profitability.

"There are people who are making good money, there are people who are making not bad money and there are people who are making lousy money in a business where they should be making good money."

Medium-sized players, managing $10bn-$50bn of client assets, are most concerned about the effectiveness of their investment management. More banks – including Coutts, the private banking unit of National Westminster Bank – are now deciding to outsource investment management.

Among offshore private banking centres, chief executives expect Switzerland and the Caribbean to gain in importance as a result of efforts to curb offshore centres within the EU. Dublin is also gaining from aggressive efforts to attract business. Jersey, Guernsey and Luxembourg are expected to decline in significance.

NEWS DIGEST

GERMAN WAGE NEGOTIATIONS

IG Metall accepts plan for pay dispute mediation

Germany's biggest trade union, IG Metall, yesterday accepted a proposal from employers in the metal and electrical industry for mediation in a pay dispute that was threatening to develop into an all-out strike.

The union's national leadership applied a degree of pressure on the employers by ordering a ballot of its members in the key industrial state of Baden-Württemberg on whether to go on strike from March 1. However, perhaps more significantly, IG Metall leaders decided at a meeting in Frankfurt not to call strike ballots in any other states for the time being, despite appeals from local union officials.

The union's acceptance of mediation is the first step to resolving a conflict that the centre-left German government fears could not only disrupt the economy but shatter its plans to bring together employers and workers in a common struggle against unemployment.

Talks on IG Metall's annual wage contract broke down last Tuesday after the union rejected an offer of a 2.3 per cent pay increase, plus 0.5 per cent extra from companies able to afford it. The union, which represents 3.4m workers, was holding out in public for 6.5 per cent but had signalled it would accept less. **Tony Barber, Frankfurt**

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FUGITIVE SAUDI DISSIDENT

Osama bin Laden 'missing'

The supreme leader of Afghanistan's Taliban regime yesterday said that Osama bin Laden, the Saudi dissident, had gone missing with 10 guards, but he denied the Islamic militia had bowed to US pressure and asked him to leave the country.

"We had not ordered Osama to leave Afghanistan and had advised him not to use Afghanistan [as a base for attacks] against other countries. Now Osama has disappeared and we do not know where he has gone," Mullah Mohammad Omar told a news conference broadcast on Taliban radio.

Washington has made veiled threats to attack Afghanistan again if Mr bin Laden is not handed over or extradited to face charges of masterminding August's bombing of US embassies in Kenya and Tanzania, in which 250 people died. **Reuters, Kabul**

DUMPING CHARGES

Nippon Steel attacks US

Nippon Steel, Japan's largest steel company, has sharply criticised the US Commerce Department's decision to apply dumping margins on Japanese steel shipments at the weekend, calling the ruling "regrettable" and baseless.

Japanese steelmakers are facing mounting losses as a result of the collapse in domestic demand and the contraction in export volumes since last November. US steelmakers accused Japan of dumping hot-rolled steel products on the US market last September, and are expected to expand their charges to cut-to-length steel plate following last week's preliminary US ruling.

Nippon Steel said it had fully co-operated with the Commerce Department "in spite of the fact that there was no basis to dumping charges". The statement reflects sentiment within the Japan Iron and Steel Federation, the industry association, that the anti-dumping charges are politically motivated and unfair. **Alexandra Harney, Tokyo**

TEHRAN SHOOTING

Deutsche Bank official killed

The head of Deutsche Bank's office in Tehran was shot dead at the weekend after being taken hostage by a gunman on the run from police, according to the official Islamic Republic News Agency. A government official said yesterday that the gunman, who belonged to a criminal group, was subsequently killed in a shoot-out with police, one of whom also died.

Relations between Germany and Iran are already strained by the murders of Kurdish political dissidents in Berlin, for which a German court two years ago implicated senior Iranian officials. They deteriorated still further last year when a German businessman was sentenced to death by an Iranian court following an alleged affair with a Moslem woman. **Robin Allen, Dubai**

THREE GORGES DAM

Local resentment increases

Local resentment about the construction of China's Three Gorges Dam has surfaced in a series of petitions to Beijing complaining about the resettlement process caused by construction of the world's largest hydroelectric plant, according to International Rivers Network, the campaign group. The petitions, filed on behalf of about 10,000 people, are further evidence of discontent over the huge project on the Yangtze river, which will create a huge lake and force the relocation of about 1.2m people.

The Chinese government has reported that the resettlement programme has been "progressing smoothly". The petition letters submitted on behalf of residents from Gaoyang township over the last two years suggest widespread dissatisfaction, particularly with the corruption and incompetence that has surrounded the resettlement process. **James Harding, Shanghai**

INTELLECTUAL PROPERTY ORGANISATION

Patent applications leap

The number of international patent applications filed with the World Intellectual Property Organisation (Wipo) leapt by nearly a quarter last year to 67,007, with rising numbers of applications from developing countries. Under Wipo's Patent Co-operation Treaty, companies and inventors can seek patent protection in 98 states with a single filing. Applications filed in 1998 were equivalent to 4.8m national applications.

The US continues to account for the bulk of applications (42.3 per cent in 1998), followed by Germany (13.6 per cent), Japan (9.1 per cent), the UK (6.5 per cent) and France (5 per cent). However, inventors and industry in a number of poorer nations – including Brazil, Cuba, Indonesia, Poland, Turkey and Ukraine – are also making increasing use of the system. **Frances Williams, Geneva**

CORRECTION

Withholding tax

Members of the European Parliament did not vote in favour of reducing the proposed rate of withholding tax on interest from savings from 20 per cent to 15 per cent, as wrongly stated on February 11. They rejected the amendment but backed the main plan to harmonise savings taxes.

$8BN PROGRAMME ATTEMPT TO KEEP ECONOMY ON AN EVEN KEEL DURING PRESIDENTIAL ELECTIONS NEXT YEAR

Mexico looks for IMF standby loan

By Henry Tricks in Mexico City

A team of International Monetary Fund officials is expected to visit Mexico shortly to start negotiations for a possible standby programme of up to $8bn that would help tide the country over presidential elections next year.

Economic analysts, who asked not to be identified, have been told by the government that the facility would enable Mexico to refinance $4.9bn in IMF borrowings coming due this year and $2.9bn next year that were part of an unprecedented $17.8bn emergency facility issued after the 1994 peso crisis.

It is seen as potentially a big undertaking for the Fund. It may not be as large as recent programmes for crisis-stricken countries, but it is sizeable given that Mexico's economy is relatively healthy.

"Compared to Russia and Brazil it sounds like peanuts, but Mexico is not like Russia and Brazil. It's a lot of money," said one analyst.

A finance ministry official confirmed an IMF team was expected to visit Mexico this month, but said the trip was part of "regular consultations". He would not confirm or deny the possibility of negotiations for a standby accord.

The government is said to be keeping its plans quiet because of possible political opposition. Underscoring the sensitivities, an electrical workers' union fighting plans to privatise the state electricity monopoly last week sought to rally opposition by declaring the selloff was ordered by the IMF.

Another analyst familiar with the proposed talks said an IMF agreement would be aimed at helping keep Mexico's economy on an even keel during the presidential transition next year.

For more than two decades, the economy has been hit by a crisis at the end of each six-year presidential term, a curse President Ernesto Zedillo has vowed to break. The challenge is a tough one because next year's elections are expected to be highly competitive, with a chance the ruling Institutional Revolutionary party could lose its 70-year grip on power.

Mexico is thought to be unprepared to compromise beyond its 1999 budget targets, approved after bitter wrangling in Congress on New Year's Eve. The budget is based on a fiscal deficit target of 1.25 per cent of gross domestic product, a gap considered within IMF limits.

It would mark the first Mexican borrowing from the IMF since its two-year emergency programme ended on February 15 1997.

Unlike in 1995, Mexico now comes to the negotiations in a position of strength. Dollars are flowing into the country, pushing the peso last week back below 10 per dollar, its level before Brazil's January 13 devaluation. Interest rates have also fallen despite measures that take effect today that require banks to increase deposits at the central bank by 25bn pesos ($2.5bn) in a bid to tighten liquidity.

China to make determined effort for entry into WTO

By James Kynge in Beijing and Guy de Jonquières in London

The China connection

China has galvanised its trade officials to draw up proposals for what is intended to be its most credible offer yet for entry into the World Trade Organisation.

The activity has been spurred by a confluence of factors. The first is that Zhu Rongji, the prime minister, realises that a planned visit to Washington in April could be the last opportunity for China to conclude an entry deal before the US presidential election next year and another WTO negotiating round, expected to begin later in 1999.

Beijing is also motivated by a desire to subdue growing arguments for Taiwan's admission into the WTO before China. Beijing insists it be granted WTO entry before Taiwan, its bitter rival since the end of a civil war in 1949. But its claim to prior entry has been somewhat undermined by the fact that Taiwan has reached bilateral agreements on admission with all members but Canada and Hong Kong.

A third reason for the reinvigoration of China's 13-year bid is the official perception that Beijing must do more to woo foreign investment during a year of acute difficulties for the domestic economy. One official, who declined to be identified, said that China might struggle to attract $15bn in inward investments in 1999, compared with an official $43.6bn last year.

But the incentives to liberalise run into powerful arguments that China would be better off insulating an economy buffeted by the Asian crisis and enfeebled by chronic oversupply, unemployment and a sickly state banking system.

These conflicting dynamics appear to underline the maxim sometimes quoted by Chinese trade officials: dealing with Chinese ministries is more difficult than facing the US. Therefore, Chinese analysts argue that without considerable concessions from Washington and the European Union, no Chinese deal will be possible.

Chinese officials said liberalisation was being considered in several areas, albeit according to a post-entry timetable that would give Chinese industries several years to prepare.

■ Financial services. China may allow foreign banks to engage in local currency business in more cities than the two now permitted, Shanghai and Shenzhen. But, officials said, there was great reluctance soon to allow foreign banks the important concession of taking renminbi deposits from Chinese companies. New licences may well be granted to a few foreign insurers this year, but the lifting of geographical limits for foreign insurers looks unlikely in the near future.

Liberalisation is being considered in several areas

■ Retail, trade and distribution. Officials said there could be a gesture on retail, perhaps in opening more areas of China – such as the centre and west of the country – to foreign supermarket and other retail joint ventures. Letting foreign distributors to operate, though, is seen as more problematic.

Officials said that foreign trading companies would be allowed to establish joint ventures in nine cities, in addition to the currently permitted Shanghai and Shenzhen. They will also be allowed to buy equity stakes in local trading companies.

■ Telecoms. Argument within the government in this area is intense. Wu Jichuan, minister of information industry, shows little inclination to allow direct foreign equity participation in domestic services.

■ Tariffs. Beijing recently lowered tariffs on 1,014 commodities and announced it might remove licence controls or quotas on around 300 commodities by 2005. Officials also said that import tariffs on cars, heavy trucks and selected electronics could be lowered. But it was unclear whether the proposed reductions would be enough to satisfy the US and EU, which are keen to see tariff peaks – of around 80 per cent for cars – eliminated.

■ Agriculture. This may be the most difficult. US officials have told the Chinese that a strong accord on agriculture is essential. Foreign diplomats said China was considering a limited liberalisation of quotas for some agricultural imports, including grains. But Chinese flexibility is seen as limited by a deep sense that grain production is a matter of national security, and by widespread subsidies for grain prices.

From China's perspective, a principal benefit of WTO entry would be permanent most favoured nation trading status with the US. But permanent MFN gives Congress leverage over the negotiations.

Additional reporting by Nancy Dunne, Stephen Fidler and Tony Walker in Washington

Zhu Rongji greets Bill Clinton during the US president's visit to Beijing last June AP

Drugs question hangs over US-Mexico ties

By Henry Tricks in Merida and Stephen Fidler in Washington

When President Bill Clinton and Ernesto Zedillo, the Mexican leader, hold talks in Mexico today, the most prickly item in the cross-border relationship is nowhere on the agenda: the annual US "certification" of Mexico's anti-drugs efforts.

But in Mexico, the "non-issue" will hang over the meeting as thick as the steamy air in the Yucatan city of Merida where it is taking place.

With impeachment of Mr Clinton out of the way, some members of the US Congress are now free to focus on what has become an annual spring ritual – Mexico-bashing as the US assesses its neighbour's and other countries' efforts to co-operate with the US in curbing the flow of drugs.

Each year, Mexico bristles over the process, which it considers one-sided arrogance from the world's largest drug consumer. It has never, however, been "decertified" – a process that leads to an array of economic and possibly trade sanctions.

Last week, the Clinton administration indicated it would again recommend that Congress certifies Mexico.

"In our view, the government of Mexico, under the courageous leadership of President Zedillo, is strongly committed to countering what they see as their number one national security threat. And they are co-operating more closely with the United States at virtually every level than ever before," said James Rubin, State Department spokesman.

On Capitol Hill, however, it seems likely that Mexican certification will have a harder time than in the past. Members of both houses have criticised the lack of extradition of drug suspects from Mexico, and Mexico's refusal to allow US patrol boats to enter Mexican waters in "hot pursuit" or US drug agents in Mexico to carry guns.

Mexicans fear the atmosphere could degenerate if Republicans, smarting over Mr Clinton's acquittal from impeachment, want to take a quick pot shot at him.

"One way of settling scores is to find ways of hurting Mr Clinton's interests. A test case could be Mexico," said Jorge Montaño, a former Mexican ambassador to Washington.

Mr Zedillo has gone on the counter-offensive, sending the interior minister, Francisco Labastida Ochoa, to Washington last week to detail a $550m high-tech campaign, including use of the military, police, radar and x-rays, to seal Mexico's exposed borders for drug traffickers.

During the Clinton visit, both countries are expected to announce a landmark programme on monitoring bi-national drug efforts in which for the first time, Mexican officials say, the US will provide a foreign country with benchmarks to scrutinise Washington's anti-drugs efforts.

Besides drugs, the two leaders will highlight the benefits of the North American Free Trade Agreement (Nafta), now five years old. In the first half of last year, Mexico overtook Japan as the US's second largest trading partner after Canada.

The meeting is also expected to produce agreement on safety, violence and environmental protection along the 2,000-mile border, and on helping Central America rebuild after Hurricane Mitch, an area where Mexico has taken a lead.

"Sometimes it's hard to convince anyone that the agenda is more than just drug trafficking," said Juan Rebolledo, Mexico's deputy foreign minister. "What the presidents want to convey is an image of the complexity and breadth of the relationship."

Ultra-Orthodox Jews in anti-secular rally

By Judy Dempsey in Jerusalem

Israel's ultra-Orthodox Jews yesterday rallied nearly 200,000 supporters to defend the religious identity of the state against the secular supreme court and its judges.

It was one of the largest demonstrations organised by the Haredim, ultra-Orthodox Jews, signalling their growing power under the government of Benjamin Netanyahu, the prime minister, but also their sense of siege as divisions between religious and secular communities sharpen.

The demonstrations touched on complex issues beginning to surface in Israel: the need for a written constitution and the debate over separation of the state and the faith.

As religious mothers and daughters kept their distance from the black-suited men and boys in Jerusalem's old central bus station, Haredim posters proclaimed: "No substitute for the Torah" – the holy scripture.

Not far away, near the heavily guarded supreme court, gathered a smaller counter-demonstration organised by leftwing parties. It included liberal Orthodox Jews, but not Ehud Barak, the opposition Labour party leader, who stayed away.

Young and old said they believed the democratic institutions, especially the supreme court, were being threatened by the Haredim.

One poster showed a picture of the late Ayatollah Khomeini of Iran beside Rabbi Ovadia Yosef, spiritual leader of Shas, the ultra-Orthodox party in Mr Netanyahu's rightwing coalition government. It asked: "What is the difference between them?"

The issue which galvanised support for the demonstrations was a verbal attack last week on Aharon Barak, supreme court head, by Rabbi Yosef. His utterances carry immense weight among the Sephardim – Jews from north Africa and the Middle East.

He said judges of the supreme court were "slaves who now rule us".

Menachem Porush, chairman of United Torah Judaism, also in the coalition, said the supreme court was "a judicial dictatorship".

Such criticism stemmed from recent decisions by the supreme court ruling that exemption from military service for students in the Yeshivot, or seminaries, was illegal, while shopping on the Sabbath in the kibbutzim, secular collective settlements, was allowed.

But the decision perceived by the Haredim as representing the greatest threat to Israel's religious identity was a ruling by a lower court.

It deemed that the ultra-Orthodox monopoly on conversions to Judaism was not legally tenable, thus paving the way for the participation of the reform and conservative strands of Judaism.

The Haredim recognise neither movement.

"The courts are trying to destroy the Jewish identity of our state," said Mira, a young religious woman.

"The courts defend our democracy," said Yaara, a young secular student, adding that she was about to serve her two-year military conscription while Haredim counterparts were exempt.

High stakes in genetic accord talks

By Vanessa Houlder

The US has warned that hundreds of billions of dollars of agricultural trade could be at stake in a controversial international agreement on the safety of genetically modified organisms (GMOs), which enters its final round of negotiations in Colombia this week.

Representatives of 170 governments are meeting in Cartagena to thrash out the details of the biosafety protocol governing the movement of crops and other products made using biotechnology. The talks are taking place against a backdrop of intensifying public disquiet, particularly in Europe, about the health and environmental implications of genetically modified crops.

The goal of the protocol is to cut potential risks of movement across national boundaries of GMOs by introducing a system of permits and information sharing. But there are numerous conflicts about the scope and nature of the protocol which is due to be finalised by ministers early next week.

"The depth of disagreement is significant. The odds of reaching an agreement are 50/50 at best," said Rafe Pomerance, the US deputy assistant secretary of state for the environment.

A key issue is whether the protocol should be confined to GMOs (or "living modified organisms" as they are known in the protocol) or whether it should include products derived from GMOs.

This option, which is backed by many developing countries, could have implications for a huge number of products ranging from corn oil to cotton socks.

The European Union is keen that the protocol should have a broad scope, with some exceptions such as pharmaceuticals. It is anxious to include agricultural commodities because of fears they may present health risks.

The EU is at loggerheads with the US, which believes such a broad definition would interfere with trade and extend beyond the original mandate of the protocol, which is focused on biodiversity rather than health.

The US and other big exporters of agricultural products are particularly worried about a plan to extend the scope of the protocol to every shipment of GM products, which they think could make the system unworkably complex. Providing detailed information on every shipment of wheat, possibly containing 30 different GMOs, "is an extraordinarily difficult and impractical thing to do," says John Herity, director of Canada's Biodiversity Convention Office.

Another highly contentious issue is the desire by some developing countries to cite social and economic factors as potential grounds for refusing shipments of GMOs.

This proposal, contested by most developed countries, stems from fears about loss of income as genetically engineered crops replace traditional farming methods.

There is also discord on an attempt by several African countries to require countries that export GMOs to assume liability for economic consequences of mistakes.

One reason why the negotiations are expected to be so difficult is that each issue brings together a different coalition of countries. On some matters, developing countries which are large exporters of agricultural commodities have lined up with the US, the largest producer of GMOs.

Despite the high profile of the US, it cannot play a formal role in the talks because it has not ratified the Convention on Biological Diversity, the United Nations treaty signed in 1992, which includes the biosafety protocol.

Although the EU and US are highly active participants in the talks, the protocol will not have a direct impact on trade between them because they have already have domestic regimes governing GMOs in place.

The talks are the subject of intensive lobbying from the biotechnology industry, which fears severe disruption to exports.

Mondex reaches Japanese smart card deal

By James Mackintosh

Mondex International, the Mastercard International-controlled electronic commerce business, will today announce a deal to introduce its smart cards and digital cash cards in Japan.

The deal with JCB, the country's largest credit card issuer, and Sanwa Bank will come as a blow to both Visa and NTT, the Japanese telecoms provider.

Visa is pushing its Visa Cash product which has around 100,000 cards in operation in Japan, while NTT offers a domestic Japanese electronic cash card.

Electronic cash, stored on a smart card where the magnetic stripe is replaced with a microchip, is expected to play a big part in the decline in use of cash over the next decade. But it has yet to take off in a big way and in most countries is still being tested.

The JCB and Sanwa deals confirm the trend for large banks to adopt Mondex's MultOS multi-application format for their smart cards, but the standard for digital cash is still far from decided.

Mondex is fighting several large organisations, including Visa and Belgium's Proton, which have teamed up to develop a common standard.

Mondex received a blow in September when Europay, Mastercard's European partner, endorsed the German Geld Karte instead, and American Express – which has adopted MultOS – spurned Mondex's cash cards in favour of Proton's. The Belgian company has issued more cash cards than any other group.

Mondex said it had been negotiating with Japanese banks for four years. "The addition of this important G7 economy strengthens Mondex's position as the only global electronic cash product," said Michael Keegan, Mondex chief executive. "No other electronic cash system can now match our presence in so many of the world's major financial markets."

Mondex still has no franchises in Italy or in Germany, where Geld Karte is believed to be fighting hard to keep them out.

The JCB deal puts Mondex in a strong position to fight Visa, as it is already linked with Discover, the US credit card brand.

Sanwa will take an equity stake in Mondex and JCB is expected to follow in a deal understood to be in the low tens of millions of pounds. JCB will replace its 15m multi-function credit, debit and loyalty cards with smart cards to which it will add Mondex electronic cash over the next two to three years.

Eritreans hail gunship downing

Eritreans gathered to celebrate at Asmara airport yesterday (picture, left) after an Ethiopian helicopter was reported to have been shot down, Reuters reports from Addis Ababa.

But Ethiopia said it inflicted heavy casualties on Eritrea in fresh fighting on a new front south-west of the strategic Red Sea port of Assab.

Eritrea said it shot down an Ethiopian Mi-24 helicopter gunship over the front line, killing the crew. Ethiopia later acknowledged the report. Both sides blamed the other for starting yesterday's fighting, which broadens one of the few African conflicts in which two nations are contesting a front line using conventional armies. An Eritrean government spokesman said the attack started with a big Ethiopian bombardment.

HORMONE-TREATED MEAT WASHINGTON OFFERS TO LABEL ITS EXPORTS TO SHOW COUNTRY OF ORIGIN

US plan to resolve beef trade dispute

By Guy de Jonquières

The US has proposed that all its exports of beef and beef products to the European Union should be labelled to show their national origin, in an effort to resolve the trade dispute over the EU's ban on meat treated with hormones.

This is the first time the US has offered to accept mandatory labelling of its agricultural exports. The proposal is intended to encourage the EU to lift its ban by guaranteeing more information to consumers.

EU officials cautiously welcomed the offer, by Charlene Barshefsky, US trade representative, and Dan Glickman, agriculture secretary, as a sign that Washington was prepared to seek an amicable compromise.

"It looks like an opening bid," one official said.

However, EU officials said a decision on any labelling scheme was likely to arouse fierce debate between authorities responsible for trade and for agriculture in the European Commission and the council of ministers.

They also said the US proposal was too limited to satisfy even EU supporters of labelling, because it did not envisage that labels should state clearly whether beef had been treated with hormones.

The EU has until May 13 to comply with a World Trade Organisation ruling last year, which upheld a US complaint that its 12-year-old ban on hormone-treated beef violated multilateral trade rules.

However, the Commission last week admitted that the EU would not be ready to meet the May deadline and outlined three possible options, including a labelling scheme, for conforming with its WTO obligations.

Peter Scher, US special trade ambassador, called the Commission's options paper "positive". He said Washington's labelling offer, made to Sir Leon Brittan and Franz Fischler, Europe's trade and agriculture commissioners respectively, aimed to stop the hormones issue developing into a conflict even bigger than the current US-EU dispute over bananas.

The US has called for an existing voluntary labelling scheme for certain beef exports to the EU to be made compulsory and expanded to cover all exports.

But EU officials said the proposal fell short of a recent suggestion by Stuart Eizenstat, US under-secretary of state, that labels should state explicitly that beef was hormone-treated.

They said EU trade policy-makers were ready in principle to discuss a labelling scheme, but the idea faced strong opposition from agriculture authorities and European consumer groups.

Libya softens on Lockerbie despite cracks in sanctions

By Mark Huband in Cairo

The international pressure on Libya to surrender the two men accused of masterminding the Lockerbie airliner bombing in 1988 has started to have an effect only since an increasing number of African leaders began flouting the United Nations ban on air links.

The Organisation of African Unity voted last June to ignore a flight ban imposed as part of the sanctions regime, which the US first launched in 1986. Colonel Muammer Gadaffi, the Libyan leader, has apparently softened his stance on the Lockerbie suspects in response to a decrease rather than an increase in his international isolation.

Economic sanctions on Libya were introduced with the passing of UN resolution 748 on March 31 1992. The sanctions followed the passing of UN resolution 731 two months earlier, which had demanded the extradition of the two men suspected of involvement in the bombing of the PanAm aircraft, as well as demanding Libya's co-operation with a French investigation into the bombing of an aircraft of UTA, the French airline, in 1989.

The sanctions banned flights to Libya and imposed an arms embargo on the country. A review of the sanctions in April 1993 led to threats by the US, UK and France that tougher sanctions would be sought if Libya refused to comply.

On December 1 1993, UN Security Council resolution 883 came into effect in response to Libyan non-compliance. The extended sanctions allowed for the freezing of Libyan assets abroad, with the exception of oil and gas earnings, and banned the sale of equipment for use in downstream oil and gas sector operations.

All offices of Libyan Arab Airlines, the national carrier, were also to be closed, the sale or leasing of aircraft to Libya prohibited, the maintenance of its aircraft forbidden and the training of its personnel suspended.

Accompanying the UN sanctions imposed after the Lockerbie incident have been US sanctions first imposed on January 7 1986 and renewed at six-monthly intervals ever since. The US sanctions, imposed originally after the US accused Libya of harbouring members of the Palestinian Fatah Revolutionary Council led by Abu Nidal, led to the freezing of Libyan assets in the US and banned trade with or travel to Libya by US citizens or companies.

The Organisation of African Unity voted last June to ignore a flight ban, which is part of the sanctions regime

The decline in US-Libya relations, which reached their nadir when US aircraft bombed the Libyan capital on April 15 1986, saw a wedge being driven between the US and European countries whose business interests would be affected by Libya's ongoing isolation.

European companies, particularly those from Italy, continued to invest in Libya's oil and gas sectors. In 1996 the US responded with the Iran-Libya Sanctions Act (Ilsa), which was intended to deter non-US oil companies with interests in the US from investing in either Iran or Libya, under threat of heavy penalties on their American interests by the US government.

Ilsa was widely regarded as both unworkable and unfair, and has subsequently been diluted as waivers have been applied to European and other companies determined to defy the US ban.

Howard warning on E Timor independence

By Gwen Robinson in Sydney

John Howard, the Australian prime minister, yesterday warned of political and economic instability that could result from Indonesia's proposal to grant early independence to East Timor.

"A quickly independent Timor would be very vulnerable and very weak. There would be a lot of pressure on Australia to provide a lot of help," he said.

Mr Howard's remarks highlighted Canberra's alarm at Jakarta's policy reversal on East Timor, one of the archipelago's closest points to Australia.

B.J. Habibie, the Indonesian president, said last Thursday he would grant independence to East Timor from next January if Timorese rejected his government's offer of autonomy.

Australian officials, however, opposed the plan, warning that independence without a period of autonomy could trigger East Timor's "internal collapse" and a wave of refugees to Australia. It would also put pressure on Canberra to provide aid and a peacekeeping force, and was an "enormous potential burden" for Australia, Mr Howard suggested.

John Howard: 'Timor would be very vulnerable and very weak'

"We are dealing with a situation where, if there were quick independence for Timor, [Australia] could well be expected by the bulk of the international community to carry the bulk of the aid... We would be willing to play our part but I want the Australian people to understand that it could be quite expensive."

Indonesia annexed the eastern half of Timor in 1976, declaring the former Portuguese colony its 27th province. Australia was the only western government to recognise Jakarta's claim, defending its policy as a move to preserve relations with its largest neighbour.

In January, Canberra changed its East Timor policy from full support for Indonesian rule to calling for autonomy and, possibly, the longer-term option of independence. East Timorese independence activists condemned the Australian position. "It shows the Australian government doesn't believe our capacity to achieve peace and harmony," said Xanana Gusmao, the resistance leader who was moved last week from a Jakarta prison to house arrest.

Thai bankruptcy law first step in legal overhaul

By Ted Bardacke in Bangkok

The huge political victory scored by the Thai government in getting a new specialised bankruptcy court approved by the county's appointed Senate is a crucial beginning to an overhaul of an antiquated legal system that has been the biggest obstacle to Thailand's economic recovery.

Quick passage of a workable bankruptcy court bill had been in doubt after a vocal minority of senators sought to delay establishment of the new court by two years and give it jurisdiction only over loans made after the onset of the country's economic crisis. Both amendments were defeated by large margins and the final bill passed by a vote of 103 to 3 at the end of last week.

Corporate Thailand is deeply in debt and only about half, or approximately Bt2,500bn ($68bn), of outstanding loans are currently being serviced, a significant drag on a banking sector being exhorted to lend to stimulate the economy.

Bankers estimate as much as one-third of their bad debts are "strategic", with borrowers able to pay but refusing and hiding behind legal manoeuvres which prevent banks from pursuing their claims in court.

New streamlined legal procedures will shift the balance of power to creditors and quickly end such "strategic" non-payments as well as give debtors more incentives to pursue debt restructuring deals with banks.

The importance of these legal reforms were underscored by the Thai stock market, which soared 11 per cent on the passage of the bankruptcy court bill, with shares of state-owned Krung Thai Bank, with the most bad debt of any Thai bank, rising nearly 30 per cent.

The government still has a lot of work to do.

Four other bills related to bankruptcy and foreclosure procedures are pending in the Senate, including controversial moves to help enforce the "personal guarantees" that back many corporate loans. Yet the Senate's overwhelming support for the bankruptcy court bill augurs well for the fate of the remaining bills, analysts say.

The Senate introduced only minor amendments that are acceptable to the government, thus avoiding a potentially long delay while a joint House-Senate committee irons out the differences. The new court could now be up and running as early as next month, officials say.

Legal reform "passed the House when people disputed that it would", says James Mitchell, Head of Research at Solomon Smith Barney in Bangkok.

"Now having disputed that it would pass the Senate and seeing themselves proved wrong, they will say it won't be implemented well. But the fact is, progress is being made.

"The government basically dictated the outcome."

The government's leverage in the Senate had earlier been questioned when the government promised the International Monetary Fund that it would pass the legal reforms by late last year.

This casual dismissal of the Senate's independence infuriated many Senators who otherwise supported the government's measures, said Staporn Kavitanon, a senator and secretary general of the government's Board of Investment.

"The Senate thinks it's independent and that no one can tell it what to do. The government realised this at a very late stage," said Mr Staporn.

"By and large when the government starts spending time to explain [why the bills are needed] you will have a very good conclusion."

The removal of a specific deadline for passage of legal reform from the most recent agreement with the IMF was an important political move by the government even if the removal did raise the ire of some directors of the IMF, senators say.

Although the government will again let the Senate deliberate independently and is unlikely to get the remaining four bankruptcy and foreclosure bills passed by the end of the current parliamentary session next month, Fund officials say that more legislative progress such as that shown last week will probably be enough to satisfy Washington-based IMF directors.

هكذا من الاصل

Irish premier warns on N Ireland weapons

By John Murray Brown in Dublin

Bertie Ahern, the Irish prime minister, yesterday warned Sinn Féin, the political wing of the Irish republican army, that no Northern Ireland government would be set up without a resolution of the issue of paramilitary weapons.

The Irish leader was clarifying remarks he made in a newspaper interview in which he appeared to endorse the pro-British Ulster Unionists' contention that Sinn Féin would be barred from the Northern Ireland assembly, the governing body for the province set up under the Good Friday peace agreement, if the IRA did not start to decommission its weapons.

The Sunday Times, the UK newspaper, yesterday quoted Mr Ahern as saying: "Decommissioning in one form or another has to happen. It is not compatible with being a part of a government and part of an executive, if there is not at least a commencement of decommissioning."

Sinn Féin reacted angrily to the reports, warning of a "crisis" in the peace process. Mitchel McLaughlin, the party president, said the suggestion "was clearly outside the Good Friday agreement".

Mr Ahern said last night the Irish government's position had not changed. "That does not remove the pressure on paramilitary groups on the decommissioning issue. We have to find a resolution, otherwise we will not get a working executive operating."

The row comes on the eve of today's meeting of the Northern Ireland assembly, which is set to ratify the governmental structures agreed by the parties before Christmas. The proposals for 10 ministries and six cross-border bodies to implement policy in co-operation with the Irish Republic are expected to be approved.

If ratified, it will be up to Mo Mowlam, the Northern Ireland secretary, to trigger the formation of the executive, although she has indicated she will not move without unionist support.

David Trimble, Ulster Unionist leader and the province's first minister, said: "It's time for [the republican movement] to face up to their responsibilities and decide once and for all which is more important to them: the retention of paramilitary organisations or leaving them behind and coming into the political process ... The leaders can deliver ... In refusing, they themselves are breaking the agreement."

Martin McGuinness, Sinn Féin's chief negotiator, said last night the Irish government had made clear Sinn Féin could not be barred from the executive.

But last night, Mr Ahern's spokesman said the Irish government believed it "unreasonable to expect the executive could be formed without an understanding of how the implementation of the decommissioning part of the agreement would be taken forward".

Aid to inward investors may be paid in euros

By Kevin Brown, Industry Editor

The government is telling overseas companies thinking of investing in Britain that it is prepared to denominate regional selective assistance grants in euros rather than sterling.

The move involves the government taking the exchange rate risk between the date of agreement on euro subsidies and payment of the funds.

The Invest in Britain Bureau, the Department of Trade and Industry agency that markets the UK to potential inward investors, is understood to be negotiating with several companies that are thought likely to seek payment in euros.

"If a company so chooses, and it is managing its own investments on a euro basis, we want to be able to accommodate them financially. It is all part of the government moving to active preparation for the euro," said Andrew Fraser, head of the bureau.

The disclosure comes as the government prepares to publish a national changeover plan setting out the practical steps needed if UK membership of the euro is approved in a referendum. Opponents of early British membership will see it as part of an attempt to prepare the ground for membership.

"We have no objection to people using the euro, but the government is wrong to encourage people down this route by transferring the risk to the taxpayer," said Francis Maude, shadow chancellor. "This is part of a pattern developing where the Blair government is using taxpayers' money as a subsidy to try to create a false sense that UK entry into the euro is somehow inevitable."

The European Movement, which last year co-ordinated a statement by 114 leading business people calling for early UK membership of the euro, said the DTI's move to denominate grants in euros showed that it was concerned about the risks of remaining out of the system.

The DTI has not yet decided how to manage the exchange risk associated with euro payments, which could be substantial if large numbers of inward investors choose to receive grants in euros. The budget for RSA is £267m this year. The DTI is understood to be ready to pay much of the budget in euros if that is necessary to attract internationally mobile projects.

Ministers are understood to have acted because of concerns that being outside the euro system would hamper efforts to compete for US and Asian projects.

Private sector helps embassies fill 'knowledge gap'

A scheme that places executives in diplomatic postings to lift exports is gathering momentum as it enters its second year. David Buchan reports

Rob Curwen says it in the nicest possible way. The diplomats who are temporarily his colleagues at the British embassy in Oslo "have a knowledge gap about the Norwegian oil and gas industry".

He says they have good general expertise on the sector, "but it is simply not detailed enough to really help British companies bid for opportunities here".

Mr Curwen, an engineer for Brown & Root, the oil and gas contractor, is just finishing a six-month secondment to the embassy. So he is well-qualified to detect, and fill, the knowledge gap. Nor is the embassy trying to cover up this gap, because it has asked the Foreign Office for someone from its new short term business attachment scheme.

As the scheme goes into its second year, "privatisation" of Britain's export promotion proceeds apace. When Robin Cook, the foreign secretary, launched the idea in July 1997, his officials say they reckoned on seconding about eight people a year from private sector to posts abroad for spells of three to six months. After a year of operating the scheme at full steam, they have 20 placements completed or still running, and hope for slightly more in 1999-2000.

It rivals a scheme started under the Conservatives, which takes private sector experts into UK embassies for attachments of a year. Shorter-term attachments are more popular with business people who, according to one official, "generally don't want to take so much time out of the loop".

The joint export promotion directorate, run by the Foreign Office and the Department of Trade and Industry, says about 100 companies, a rough cross-section of Britain's top 200, have expressed interest in the scheme, with about 30 actively participating.

Participation is not free. The seconded business executives stay on their companies' payroll, with the government paying all their "in-country" expenses, plus a portion of their salary. In return, the executives say they benefit from the direct experience of how embassies operate, better access to foreign officials and business that UK diplomats often get, and from a broader perspective than is possible when working for a company.

It has not always worked out that way. One of the first to go out under the scheme was a banker from HSBC, the banking group, who arrived at the Belgrade embassy only to find the west starting to tighten economic and credit sanctions on Yugoslavia again, therefore making his job pointless. Nor did south-east Asia seem very promising when Rolf Soderstrom, a British corporate finance specialist with PwC, arrived at the Bangkok embassy in May. But he focused on privatisation opportunities for UK business just as the Thai government started to turn to privatisation as a way out of its troubles. Mr Soderstrom says he appreciated the access that being a "representative of a government with no particular agenda except promoting UK commercial expertise gave me to everyone, all the way up to ministers", in Thailand.

Rob Curwen: giving diplomats detailed business knowledge Scanpix

Having finished his seven-month secondment last year, he is back in Bangkok to try to use his experience and contacts to win privatisation business for PwC.

He acknowledges this could appear to be using public service for private gain, but insists no such conflict of interest has arisen because none of the privatisation contracts discussed while at the Bangkok embassy have yet come to fruition.

The scheme's organisers acknowledge the conflict of interest issue has to be addressed, but claim there are three safeguards. First, the scheme is open to all UK companies. Second, the commercial information gleaned is quickly distributed to all potential UK customers, and ambassadors are there to see this happens. Third, commercial information dates quickly.

But some companies take extra precautions. Rolls-Royce felt it had to last year when it seconded Elon Bailey to the UK consulates in Sao Paulo and Rio de Janeiro in Brazil, where he had already been selling military aero-engines to the navy and air force.

The Brazilian government was, of course, the only customer for his wares. "So we decided that I should do something totally unrelated to military sales," says Mr Bailey, "and I ended up doing a study on the market for air pollution and waste control equipment, and its potential for small and medium-sized British firms".

Mr Bailey says Rolls-Royce chose to see his Brazilian diplomatic assignment simply "as a career development opportunity".

In fact, doing market research tailored to smaller UK firms meets a real need and eases any conflict of interest concern for executives from larger companies. As Mr Curwen points out: "My work in the embassy is not totally relevant to Brown & Root, but more to smaller UK companies, because that's where the need is."

Forecast calls for more rate cuts to halt downturn

By Peter Marsh in London

The UK is already technically in a recession and further cuts in interest rates will be needed in the next few months to stave off a prolonged decline, according to London Business School and Oxford Economic Forecasting in a report published today.

The assessment adds to gloom surrounding the UK economy, which prompted the Bank of England's monetary policy committee this month to bring down borrowing rates to 5.5 per cent – the lowest since 1994.

However, the business school and the OEF consultancy believe cuts to 5 per cent will be needed by summer if economic activity is not to slide further.

The report warns of a sharp fall in consumer confidence over the next few months, triggered by large rises in unemployment as companies cut costs. That is likely to be a reaction to a recent large rise in borrowings, partly to finance hefty stocks of unsold goods.

The report says Gordon Brown, the chancellor, is unlikely to take much direct action in his Budget on March 9 to arrest the economic slide. It believes the Budget will be "broadly neutral" in adding or subtracting money from the economy through the tax system.

The report forecasts gross domestic product will rise 0.4 per cent this year and 1.9 per cent next year. The LBS/OEF team believes public finances will show a surplus of about £7bn ($11.5bn) this year. However, the government may have to borrow to fund public spending over the next few years if the fall is worse than expected.

This year, GDP is likely to fall slightly in each of the first two quarters, the report says, satisfying the technical requirement for a recession, but with growth expected from the third quarter.

INSIDE TRACK

PROFILE SERGIO MARCHIONNE, ALUSUISSE LONZA

Have skills, will manage

Trying to make a success of a controversial merger holds no fears for the ambitious chief executive of the Swiss multinational, writes **William Hall**

It is 7.30am on a Sunday in Davos, the Swiss ski resort, and temptation is in the air. The sun is shining after a heavy snowfall and Davos's 350km of perfectly groomed ski pistes are beckoning business leaders after three days of brainstorming at Davos's annual World Economic Forum.

But not Sergio Marchionne, chief executive of Alusuisse Lonza Group. It is the first time the Italian/Canadian manager has attended the forum and he is obviously enjoying the heady cocktail of big ideas and high-powered networking.

As he takes breakfast, Flavio Cotti, Switzerland's foreign minister, and Pascal Couchepin, the Swiss economy minister, pause to chat, as does Romano Prodi, the former Italian prime minister.

Mr Marchionne is a new chief executive in a hurry to make his mark. Five years ago he was chief financial officer of Lawson Mardon, a medium-sized, highly geared Canadian packaging company. Today he is chief executive of Alusuisse, a century-old Swiss multinational, and charged with making a success of a controversial cross-border merger with Viag, a German conglomerate, nearly four times Alusuisse's size.

Mr Marchionne's big love in life, apart from opera and his family, is big business. At Alusuisse he set himself the target of doubling group sales within five years to SFr15bn (£6.8bn). However, less than two years after he set that target it has been rendered obsolete by the much bigger targets he has helped set following the Viag merger.

As deputy chief executive of an enlarged group employing 127,000 and with two core businesses – utilities (electricity and telecommunications) and industrial operations (aluminium, packaging and chemicals) – he will shoulder most of the responsibility for boosting operating margins from 8 per cent to 13 per cent, and generating double-digit earnings growth over the next five years.

Viag is counting on Mr Marchionne's untested skills as an industrial manager to improve dramatically its returns on a motley collection of underperforming industrial assets. They have long been subsidised by Viag's Bavarian power utility, which generates more electricity than all of Switzerland.

If Mr Marchionne, 46, can achieve his ambitious goals, then within five years he will almost certainly have taken over from Viag's Willy Simson, 60, as head of what will be Germany's sixth biggest industrial group, and proved himself as one of Europe's premier industrial managers. But it is a big "if".

Despite Mr Marchionne's gift for communication, the merger has not gone down well with investors. Alusuisse shareholders are unhappy because they will own 35 per cent of a company heavily exposed to two new areas of uncertainty – nuclear power and a high-risk bet on telecoms. Viag's shareholders are upset because their company will become even more diversified and unfocused than before.

Although Viag's aluminium and packaging businesses neatly complement those of Alusuisse, Viag has several independently minded quoted subsidiaries, of which the biggest is SKW Trostberg. It is not as well run as Alusuisse's Lonza chemicals operation, yet it is the one bit of Viag's non-energy operations that will not fall under Mr Marchionne's control. Such loose ends raise questions about Mr Marchionne's ability to deliver the full benefits of the merger.

Scepticism about the merger also reflects the stock market's increasing disenchantment with big mergers and unfocused conglomerates. The rise and fall of former UK stock market stars, such as Hanson and BTR, has led to a distrust of executives claiming that management is a generic skill, and good managers can add value by just being good managers.

But that is not the only reason. Alusuisse and Viag have had to bend the rules to make their merger acceptable. They are adopting more lenient US GAAP accounting rules to permit a pooling of interests without the need for hefty goodwill write-offs. They have also had to promise boardroom seats for Martin Ebner and Christoph Blocher, two Swiss investors who had built up big stakes in Alusuisse.

Swiss investors resent not being offered a takeover premium for ceding control of a famous Swiss blue chip to the Germans. But by bringing Mr Ebner and Mr Blocher on board, the promoters of the merger have defused the most serious source of potential Swiss opposition.

While the Daimler Benz/Chrysler "merger of equals" is held up as the model for the Viag/Alusuisse merger, Mr Marchionne's critics prefer to cite the recent collapse of the proposed merger of Ciba and Clariant, two Swiss speciality chemical companies. Both were based in Basle, operated in the same industry, shared similar histories, and their managements talked the same language. So why should Mr Marchionne, who has no experience of Viag's energy and telecoms businesses and does not speak German, succeed where they have failed?

Mr Marchionne is unphased by such questions. In his book, success hinges on the quality of the management rather than the type of assets being managed. Allied Signal and General Electric in the US are two companies that exemplify his management approach. GE's Jack Welch is clearly his role model.

"You must look at us as a GE in development. Nobody is going to say that there is a Jack Welch sitting in the organisation – maybe there is and maybe there isn't. The only thing that I do know is that our commitment to managing diversification is no different from GE's," says Mr Marchionne.

He argues that the stock market's distrust of diversification fails to take account of his management style. "If our businesses cannot get to a 'best in class' position, they will be gone. That is the overriding principle. I don't care whether it impacts on packaging, aluminium or chemicals. The value of diversification is the fact that management has to be absolutely brutal in making those choices. Otherwise you cannot be committed to raising shareholder value on a continuous basis."

This sort of talk is music to the ears of Mr Ebner who has made life a misery for the managements of several poorly performing Swiss companies. Alusuisse Lonza used to be on the "brink of ruin", says Mr Ebner. Today it is well run and has its eye set firmly on enhancing shareholder value, thanks to Mr Marchionne.

The compliment is returned by Mr Marchionne. "Let's be absolutely clear, he [Mr Ebner] bought in to a management style and philosophy," he says, referring to the rapid build-up of Mr Ebner's 21.8 per cent stake over the past year. "Has he forced us to do anything we would not have done? The answer is no. He has supported us fully and totally."

The potential for boardroom fireworks is nevertheless considerable, especially if the vast cash-flow from Viag's energy business starts to dry up following the deregulation of the German electricity industry, or Viag's DM7bn ($4bn) investment in telecoms fails to turn a profit by 2001.

Despite the stock market's negative reaction, Mr Marchionne remains bullish about a new company that has already been nicknamed Viagra by some cynics. "Perhaps we have been poor in conveying the brilliance of this deal. It is a phenomenal industrial deal in terms of strengthening what we have. There is no match like it anywhere."

Essential guide to Sergio Marchionne

Facts of life: born Chieti, Italy, June 17 1952. Family emigrated to Canada 1966. Marchionne learnt English in 60 days and in six months had mastered rest of school curriculum. Motto of being "best in class" permeates whole approach to business, but does not yet extend to speaking German. Must try harder if he wants to make a hit with Viag's German troops.

Canada days: trained as a barrister, solicitor and chartered accountant. University of Toronto (major in philosophy with minor in economics), University of Windsor (MBA), and Osgoode Hall Law School (LLB). Tax specialist, Deloitte Touche, 1983-86; Lawson Mardon, packaging company, financial controller, 1986-89; executive vice-president, Glenex Industries, 1989-90; chief financial officer Acklands, 1991-92; returned to Lawson Mardon 1992 as chief financial officer.

Lucky break: Alusuisse bought Lawson Mardon in January 1994 which led to Alusuisse's packaging boss, Frenchwoman Dominique Damon, being anointed Alusuisse's CEO-in-waiting. However, within a year Ms Damon had quit, and Georges Schorderet, Marchionne's only other rival, left to be Swissair's chief financial officer. Chief executive since April 1997.

Personal style: impatient, aggressive workaholic who has occasionally driven colleagues to tears. New managers are issued with a card listing the group's vision, culture and leadership.

Favourite prima donna: Maria Callas. Not only do her operas reverberate through Alusuisse's aluminium headquarters but so do her images in Alusuisse's 1997 annual report – "adding dimensions which are often forgotten and yet vital to the success of any enterprise: beauty, feeling and humanity".

LUCY KELLAWAY

Step by step to success

Undeterred by numerous falls a child eventually learns to walk. A new management philosophy urges the same 'can do' approach

Welcome to The Walk©. At last, here is hope for us negative types, who never set goals, who avoid challenges, and who trundle along hoping for the best. The Walk© is a seven-week programme that will show us what we want and how to get it. It will give us a "lifelong positive attitude" and make success ours forever.

The idea was developed by Robin Seiger, who used to be a struggling comedy writer, but then he got cancer, and after winning that fight reinvented himself in a less humorous but more successful vein as a self-help guru.

So what does The Walk© involve? As far as I can gather it involves a good deal of, well, walking. Not just the sort of walking you and I do to the station in the morning, but long walks in uncomfortable places under the care of army commandos.

The Walk© philosophy centres on the idea of the child: apparently the average child falls more than 240 times when learning to walk, but each time gets up again undeterred until he or she finally manages it. Unfortunately this can-do attitude does not last: by the time we grow up we have become full of self-doubt with negative mindsets. That's where The Walk© comes in.

Brilliant, brilliant idea, Mr Seiger.

Just reading about The Walk© and flipping through his new book, *Natural Born Winners*, I have seen in a flash how I could change my life. Instead of writing all this negative stuff every week, I too could become a guru.

Welcome to my new idea: The Sleep©. The Sleep© philosophy is that we all spend too many hours of the day awake. The idea is so obvious, so simple, and surely, so lucrative. The fact that none of us gets enough sleep has serious implications for our jobs and families.

Once again, the baby is the perfect paradigm. As infants we sleep up to 20 hours a day, but in our few waking hours we are at our most effective ever: our learning curves are steeper than they will ever be again. As we get older we sleep less and less, and eventually turn into harassed, bad-tempered adults who burn the candle at both ends.

That's where The Sleep© comes in. It promises to re-harness the power of sleep and enable us to rebuild our lives for a happier, more prosperous future. The seven-week programme will include an away-weekend at which delegates will laze in easy chairs around an open fire, or retire to silent hotel rooms with great big beds and blackout blinds. Should delegates wake up they could have a filling meal and then slope off to the amphitheatre (reclining chairs, low lights, white noise and deadpan lectures on management strategy trees).

My book to accompany the course will be called *Natural Born Zizzers*. Interested publishers and event organisers can contact me via e-mail. I feel no need to go out and hustle. The Walk© has shown me self-belief. My fortune is made. This is the least competitive market in the world. Adults everywhere are going to love The Sleep©.

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It was deeply satisfying last week to see the personnel industry trashing one of its most corrosive inventions: performance-related pay. The Institute of Personnel and Development invited a distinguished Insead professor to lecture its members on how this method of rewarding people no longer works. In the knowledge-based economy, he said, it is not appropriate to pay in a way that divides one worker from another.

Never mind the so-called knowledge-based economy – performance pay is and always has been a lousy idea. Even when it is managed efficiently and reasonably fairly (which it almost never is) it demotivates much more than it motivates. If you get a pay rise you feel great – for about five minutes. But if you don't, you smoulder with resentment for months. Moreover, performance pay always distorts: by encouraging people not to do the job well overall, but to do well those bits they think are likely to go towards the pay cheque.

Sucking up becomes endemic.

But my reason for thinking performance pay is on its way out has nothing to do with Insead professors. Instead, what gives me hope is the news that the British government is planning to introduce it to teachers and nurses – who are among the few to have escaped it so far, and for very good reasons. A top of the market phenomenon if ever there was one.

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I had always wondered what happened once you got outside the box, and now I know. According to *Outside the Box Extra*, a newsletter from a consultancy called New Solutions, one of the things consultants and clients do outside is "surf the *zeitgeist*". Confirmation of what I suspected. Life is very much better inside the box. Those who venture out, be warned.

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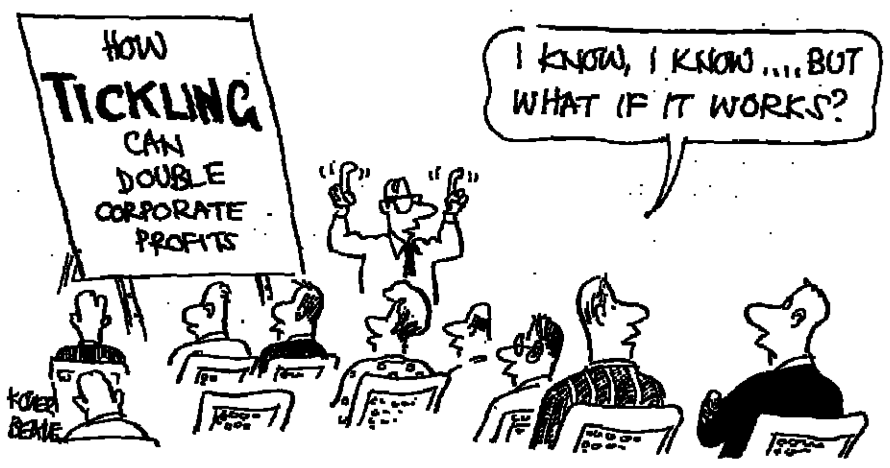


INSIDE TRACK

BUSINESS TRAVEL DOWNGRADING

Flying high in economy

Airlines are anticipating the trend to rein in travel budgets, upgrading rear cabins to include much that is familiar in business class, says **Gillian Upton**

Downgrading to economy class will undoubtedly come as a shock for business travellers familiar with airlines' business class cabins. The privacy, leg room and departure lounges are not there but, take heart, the back of the aircraft is not as grim as it was a few years ago.

Over the past 18 months a handful of airlines have anticipated the trend, caused by companies seeking to rein in their travel budgets, and have concentrated on making life more comfortable for economy class travellers.

Much of the technological advances adopted in seat design and in-flight entertainment in the front cabins are now benefiting those at the back. In so doing these airlines have set new standards for economy class travel.

Statistics show that plenty of business travellers are now experiencing life at the back of the aircraft. Air Canada says that between 70-80 per cent of passengers booking its SuperComfort economy class are business travellers. At British Airways, business travellers make up 25 per cent of its 10m economy class passengers (two-thirds of whom live outside the UK).

The annual Business Travel survey by Company Barclaycard, published last week, showed that 11.5 per cent fewer passengers from companies with turnovers between £5m and £10m are travelling in business class, compared with the previous year. One in four believe it does not give value for money.

Travel management companies reveal a similar picture as they book more clients into economy class. "It's been significant over the past six months among major blue-chip companies but it's been building for a year," says David Whittaker, managing director of The Travel Company.

While airlines' business class cabins empty out, some US carriers are offering upgrades into first class on transatlantic routes, something not seen since the Gulf war.

"It's a protectionist tactic by the airlines because they are suffering so much," says Tracy Baumfield, sales director for another travel management company, Reed & Mackay.

Passengers now have the choice of taking the upgrades, the heftier discounts being offered by airlines or buying consolidated and back-to-back tickets to help stretch budgets. These tactics may keep some travellers safely away from economy class.

"Customers are buying their tickets more intelligently now and saving money," says Don Lunn, chairman of the Guild of Business Travel Agents. Mike Platt, commercial director of BTI UK Hogg Robinson, concurs. "People are looking to get the best rate in the class they're travelling," he says.

But if company travel policy dictates economy class, then the back of the aircraft it is. It is worth shopping around because some economy class cabins are more comfortable than others.

Some things will be recognisable: the winged flaps on the seat headrest that so happily kept your head in place while dozing at the front of the plane, individual video screen, lumbar support, seat recline (but don't expect too much movement) and even the humble foot rest makes an appearance for the first time in economy.

'Customers are buying their tickets more intelligently now and saving money'

Other plus points are better food and drink (often devised by celebrity chefs) and a choice of menu. Passengers can also reserve a seat in advance.

Australasia or Los Angeles-bound travellers get the best deal on Air New Zealand. Two years ago it fitted an ergonomically designed seat incorporating a footrest, winged headrest and lumbar support on recline. The seat reclines by 6in, leg room is a much more generous 34in and the seat width 17.5in.

Passengers are treated to top New Zealand chef Peter Gordon's South Pacific cuisine, which mixes fresh New Zealand produce and Asian spices. Air Canada went one better, by introducing a dedicated quiet cabin, called SuperComfort, and much more space. It is only available for British travellers en route to Toronto from either Manchester or Glasgow airports, or those who want to make the detour from continental Europe. The 36-seat cabin has seats with 45in of leg room, 36in seat width and a footrest.

Not to be outdone, Lufthansa, Qantas, British Airways and Singapore Airlines have also improved the lot for the economy class traveller.

Singapore Airlines does not give travellers quite so much leg room in its 747-400s (32in) but the seat does recline by 6in inches and seat width is 17.7in. Winged headrests, footrests, free champagne, more interesting cuisine and in-seat video screen rounds off the product.

Qantas measures up similarly, with 32in seat pitch, 17.25in seat width, more recline (at 7.5in) and winged headrests. Better food will be introduced at the end of this year.

British Airways has been less generous all round, with only 31in of leg room and a 5in seat recline. Seat width is 17.5in and there are winged headrests, footrests, in-seat video screens and tastier food on a novel, double-decker tray presentation.

The number of seats in a row is pertinent. Air Canada's six-across gives the most spacious feel, followed by Virgin Atlantic's Premium Economy cabin; the worst are those airlines that squeeze in 10 seats.

FT GUIDE TO: ACID RAIN

Something nasty in the air

The quest to rid the atmosphere of the gases causing acidification will soon gain fresh impetus, writes **Vanessa Houlder**

Whatever happened to acid rain? A few years ago, it was in the news all the time. Now you rarely hear anything about it.

Actually, you might be due to hear more about it soon. The European Commission has an ambitious proposal to halve the area of the EU affected by acid rain by 2010. In March, it is due to adopt a potentially controversial directive that will impose national ceilings for emissions of the gases that cause acidification: sulphur dioxide, nitrogen oxides, volatile organic compounds and ammonia.

But the acid rain issue has gone strangely quiet since the 1980s when it was *the* environmental issue. In those days, there was enormous public concern that pollutants from chimneys and exhaust pipes were corroding buildings and poisoning lakes, soils and forests.

So what changed?

One reason why we don't hear so much about acid rain is that the public clamour in the 1980s forced governments to take action. In a sense, the acid rain campaign was a victim of its own success.

Another reason is that the environmental campaigners, such as Greenpeace and Friends of the Earth, have switched their attention to other issues. They say that, although acid rain is still a serious issue, it has been eclipsed by the greater dangers presented by ozone depletion and global warming.

Another, related, point is that concern about air pollution now tends to be focused on health issues. More evidence has emerged about the role played by sulphur dioxide and nitrogen oxides in respiratory problems, such as asthma. Inevitably, people care more about health problems that could directly affect them and their children than they do about the decline in wildlife as a result of the acidification of rivers.

Yet another – more controversial – view is that the acid rain issue has gone quiet because the problem was exaggerated in the first place.

A scare story, eh? Any truth in that?

A 10-year study by the National Acid Precipitation Assessment Programme, a monitoring body created by the US Congress, concluded that acid rain, while still a problem, had caused much less damage than previously estimated. Critics argued that not nearly enough attention was paid to this study (which went virtually unnoticed when it was first published in 1990), leading to the over-hyping of the problem.

Since then, there has been research suggesting that acid rain is not the main culprit when it comes to damaging trees. For example a five-year study of trees in Norway showed that spreading lime on forests to neutralise the acid in soil has a negligible effect on the trees – and could even harm them. In another study, in Liphook in Hampshire, researchers found that trees fumigated with sulphur dioxide thrived, not died.

So we don't need to worry about acid rain, after all?

Not so fast. The concerns about acid rain go far beyond the damage they cause to trees. There is a litany of other problems, including damage to wildlife, buildings and visibility. Sulphate particles account for more than 50 per cent of the visibility reduction in the eastern part of the US, according to the Environmental Protection Agency.

Even leaving aside the ecological damage caused by acid rain, Napap says that the cost of the US acid rain programme could be justified by improvements to human health and visibility alone.

So has there been any real progress at all on this?

Well, in some ways the international effort to curb sulphur dioxide emissions has been a notable success. Guided by national and international measures, sulphur dioxide emissions have been drastically cut in Europe and the US.

According to the European Environment Agency, sulphur dioxide emissions halved in 44 countries between 1980 and 1995.

In the US, the programme to curb sulphur dioxide emissions is viewed as an extraordinary success story, because it has cost much less than anyone expected. That is thought to demonstrate that the system of allocating emissions permits and allowing utilities to buy and sell excess permits is much cheaper than command-and-control regulation. As a result, it has inspired politicians with the idea of developing an international trading system for greenhouse gases, as part of the effort to control global warming.

Is that enough, then?

The EU thinks that, despite progress in reducing acidifying air pollutants, "acidification still constitutes a major environmental problem for large areas of forest and freshwater ecosystems in the European Union". In 1990, areas equivalent to the UK, Denmark and the Netherlands were thought to have exceeded their "critical loads" for acidification.

Part of the problem lies with the difficulty of curbing nitrogen oxides. In the UK, for example, even though sulphur dioxide levels are down, the emissions of nitrogen oxides – the other main component of acid rain – have not yet begun to fall. Increasing levels of traffic on the road are making cuts in nitrogen dioxide levels much harder to achieve.

So what happens now?

The EU's long-term goal is that there should be "no exceeding ever of critical loads and levels". But for now, its strategy is to halve the area where loads are exceeded.

A number of measures are in the pipeline. The EU member states have already agreed, in principle, to cut the sulphur content of liquid fuels. But reaching agreement on further improvements could be difficult in some areas.

Burning issue: trees destroyed by acid rain in the Czech Republic's Sudeten mountains EPA

The forthcoming EU directive on national emissions ceilings could prove controversial. Although member states back the strategy in principle, previous efforts to impose national ceilings have been thrown out because they imposed "unacceptable" economic burdens. The UK, for instance, complained that one version of the proposals would force the closure of all but two of the UK's coal-fired power stations and have a drastic effect on the iron and steel industry.

And in the long run? What chance of sorting this matter out for good?

Ultimately, it seems likely that the quest for cleaner air will be pursued as part of the even more wide-ranging effort to control global warming.

Admittedly, these objectives are not always aligned. The sulphur dioxide which pollutes the air and causes acid rain appears to reflect sunlight back into space, and so staves off the effects of global warming. But the big measures advocated to deal with global warming – a move away from fossil fuels and road traffic – would also sort out many of the problems causing acid rain. In the end, it is a matter of technological innovation and political will.

BUSINESS EDUCATION ACCREDITATION

Rivals join forces to meet needs of the global market

Schools are following companies in their drive to become more international and co-operative, writes **Della Bradshaw**

The two things at the top of the agenda of almost every business school are how to be more international and how to develop constructive relationships with rivals to the benefit of both. It is rather comforting to know, therefore, that after some initial suspicions, the business school accreditation bodies – the organisations that give schools the seal of approval – are trying equally hard to be both international and co-operative.

Last week in the UK, at Warwick Business School, two of the best known accreditation bodies got together for the first time to carry out a joint accreditation. Warwick was seeking to become the first UK business school to be accredited by the American AACSB and at the same time renew its kite mark with the UK's Association of MBAs.

The meetings were declared a resounding success by all parties, but it will be two months or more before Warwick gets the official "thumbs-up" from the two organisations.

While both the AACSB and the Association of MBAs were clearly very eager to work together, the move had distinct advantages for Warwick, not least in cutting the time invested. Indeed, Mike Jones, director-general of the Association of MBAs, says it was the impetus behind the joint operation.

"The move to joint accreditation was a response from our member schools that there is just too much assessment needed."

The move provided some distinct advantages for Warwick, not least in cutting the time invested

For schools such as Warwick, eager to attract students from all over the globe, accreditation from more than one organisation is particularly useful, says Robert Dyson, acting dean at the school. "AACSB is better known in the American-influenced part of the globe," he says, pointing to the whole of north and south America and the Far East as relevant areas.

Both the Association of MBAs and the AACSB have had talks with Equis, the European accreditation service set up by the EFMD (European Federation for Management Development) in Brussels, with a view to conducting joint accreditation with it.

The AACSB, meanwhile, is well advanced with overseas expansion, planning to assess 12 schools in three years in its initial foray. These include schools in Japan, Hong Kong, and Australia as well as the Rotterdam School of Management in the Netherlands, Essec in Paris and Warwick in the UK.

The Association of MBAs, which is now largely seen as a European accreditation body rather than a purely UK one, is already looking at schools in South Africa, Latin America and Australia but the crunch will come when it decides to move into the US market.

Mr Jones served notice last week that this was now on the agenda and that he was looking for AACSB help in carrying out joint accreditation exercises on its home territory.

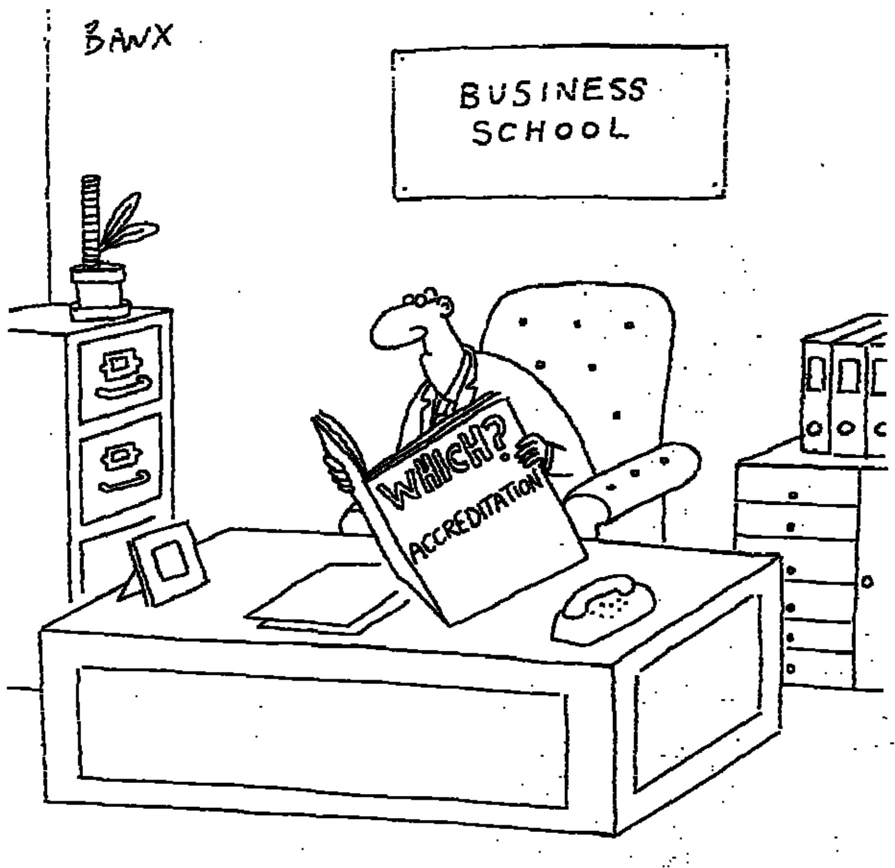
As to the nitty-gritty of the accreditation, even those participating say they were unclear how it worked so well even though they were happy with the experience. AACSB, for example, accredits the whole business school against its mission statement – the undergraduate and MBA programmes and the research and post-doctoral degree programmes included.

The Association of MBAs accredits just the MBA programme and does so against a model of what the ideal MBA should be. (Equis, by comparison, is the only one of the three to include executive education programmes in its accreditation.)

Howard Thomas, dean of the University of Illinois at Urbana-Champaign and a member of the AACSB accrediting panel, jokes that it was "force of personality" that saw the process through.

Fellow AACSB member Gary Williams, dean of the University of San Francisco, is more analytical. "The convergence was around quality. That's the one area where we could agree."

One other area of agreement was that the different approaches made discussions more fruitful. "It enriched our judgment. It will improve the quality of the report we write," says Prof Thomas.



NEWS FROM CAMPUS

University of British Columbia recruits Muzyka

The University of British Columbia, in Vancouver, has appointed Daniel Muzyka, Insead's most respected entrepreneurial brain, as its new dean of the faculty of commerce and business administration.

Professor Muzyka was formerly director of the MBA programme at Insead and director of the 3i Venturelab, Insead's research centre dedicated to the study of entrepreneurship. He was also a strategy analyst at the General Electric Company and a consultant.

Prof Muzyka is expected to take up his position as dean this summer.
UBC: Canada, 604 822 3131

BA looks to US for MBA module

British Airways has gone to the Arthur D. Little school of management to run a module on its executive MBA programme. The programme, which began 10 years ago, has been run until now solely by Lancaster University.

The module, Strategic Services Marketing in an International Context, will be run in Boston over a seven-day period. The programme will be one of the first transatlantic, company-specific MBA programmes.
Arthur D Little SOM: US, 617 498 5000

First Thatcher chair is filled

The Judge Institute of Management Studies at Cambridge University, in the UK, has appointed its first Margaret Thatcher Professor of Enterprise Studies.

The chair was set up with an endowment of £2m from the Margaret Thatcher Foundation, which was established to encourage entrepreneurial success.

The appointee is Alan Hughes, currently director of Cambridge University's ESRC Centre for Business Research, and part of the economics department.
Judge Institute: UK, 1223 339700

Leeds students offer consultancy

The latest business school to send its students on consultancy projects is Leeds University Business School in the UK. Students on Lubs MBA programme are carrying out consultancy projects at a fraction of the cost of traditional consultants.
Lubs: UK, 113 233 2639

Henley to expand free lectures

Henley Management College in the UK is planning to build on the popularity of its free executive lectures and run a further three in London over the summer.

The free lectures will be held at Henley's site in Regent's Park, London. They will be on strategy and organisational change (April), emotional intelligence (May) and international business culture (June).
Henley: UK, 1491 418884

Iese professors win US awards

Two professors from Iese, in Barcelona, have won the award for the best management education symposium of 1998 from the Academy of Management in the US. The symposium, *Global Management Using Technology*, was given by Josep Valór, professor of information systems, and Paddy Miller, associate professor of organisational behaviour.
Iese: www.iese.es

Information for News from Campus should be sent to Della Bradshaw, The Financial Times, One Southwark Bridge, London SE1 9HL. Tel. 44 171 873 4673 Fax 44 171 873 3950

BUSINESS EDUCATION DISTANCE LEARNING

The Mounties always get their MBAs

In Regina in the heart of Saskatchewan, Canada, Richard Hobson has more on his mind than the sub-zero temperatures and his job as a Mountie, one of the Royal Canadian Mounted Police. He is also doing an MBA, and doing it by distance learning.

For aspiring MBA students in remote locations technology is delivering programmes to areas which, 10 years ago, would have literally been left out in the cold. In Canada in particular, videoconferencing and the internet have opened up the remoter parts of the country to management education.

The Ivey school, at the University of Western Ontario, for example, runs an executive MBA using videoconferencing to link classrooms across Canada. Queen's University in Kingston, Ontario, has a similar programme. And the Schulich school at York University says most of its MBA students now switch between delivery modes during their programmes – something almost unheard of five years ago.

This month Henley Management College will be launching, from the UK, its International MBA in Canada in partnership with the Certified General Accountants of Ontario (CGA). The programme combines face-to-face teaching with electronic teaching via CD-Roms and Lotus Notes groupware.

Richard Hobson chose the distance learning MBA from Athabasca University, based in St Albert, Alberta. Unlike most MBA programmes the Athabasca's was set up as a distance-learning programme using the internet. All material is delivered online, including group discussion and teamwork. The programme began in 1994 and has already attracted more than 700 students who take on average between two and a half and three years to complete their degrees.

Peter Carr, associate professor for management on the Athabasca MBA, says the programme is also proving very popular with the city-bound who cannot study during more conventional teaching hours.

Della Bradshaw

TECHNOLOGY SOFTWARE PROGRAMMING

A new language for chips

A software breakthrough could pose a challenge to the dominance of the microprocessor, writes **Marcus Gibson**

A breakthrough in software technology is being hailed by computing experts as a potential challenge to the dominance of the microprocessor in the worlds of computers, electronics and telecommunications.

The development, by a group at Oxford University's Computing Laboratory, could allow future electronic devices to be instantly programmed, and indefinitely reprogrammed, to perform any number of different functions.

As a result, a single digital handset could be used as a videophone, web surfer, music machine, GPS receiver or personalised database. The reprogramming would take just one-thousandth of a second, and be possible via radio or the internet.

The breakthrough is based on Handel-C, an ultra-fast programming language devised by Ian Page, an Oxford academic with a background in industry. Its novel "software compiler" system operates in conjunction with a new generation of US-made "FPGA" or Field Programmable Gate Array chips.

Currently, the electronics and computing industries are oriented around the microprocessor. But over the past eight years Mr Page has devised Handel-C for the FPGA instead, because its architecture gives it a very contrasting performance.

"If a microprocessor is an eight-lane highway," he says, "an FPGA is a 1,000-lane highway." Whereas a microprocessor can only process a few instructions per clock cycle, or individual operation, an FPGA can process many thousands. And although a microprocessor has a fixed number of functions – which cannot be altered after manufacture – FPGA chips possess an almost limitless range of functions and flexibility.

Mr Page believes that virtually no aspect of the electronics business will remain untouched by the development. "In some complex demonstrations there is no processor, no program code, no operating system, and no Random Access Memory. And yet they achieve things that conventional wisdom would say need all of these things," he says.

Apart from allowing electronic devices to be reprogrammed, Handel-C enables FPGA-equipped devices to run up to 200 times faster than conventional systems using microprocessors. And by obtaining more computing power at lower clock speeds, power consumption can be reduced – which has big implications for portable computing and telecoms.

The new language also greatly accelerates the overall process of software design by cutting out, almost entirely, the arduous "end-stage" of hardware function programming. The software can reduce a six-month programming task to as little as 12 hours. "Our system turns programs into hardware automatically ... with amazing results," says Mr Page.

There is a long way to go, however, before Mr Page's dream of a "post-Microsoft, post Intel" world can become reality. After a 30-month struggle to find funds from doubtful venture capital firms, Mr Page has formed a company, Embedded Solutions, to exploit the technology commercially – via Isis Innovation, the university's technology spin-off arm. Research scientists at Siemens, Ericsson and Matra are testing the technology.

But computer experts are enthusiastic about Handel-C, so-called because of Mr Page's love of music and penchant for restoring antique musical instruments. Tony Hoare, Oxford's professor of computing, says it is the first clear solution to a problem that has been pursued for the past 15 years. "The goal of automatic compilation from software to hardware has been pursued by many around the world. But Ian has done it."

James Martin, the millionaire software consultant who funds a computing professorship at Oxford, says: "There's a multi-billion industry just sitting here ... If this were Silicon Valley it would have been snapped up years ago."

Composing a new language: Ian Page, inventor of Handel-C

LEGAL NOTICES

TO THE HOLDERS OF

OLYMPIA & YORK MAIDEN LANE FINANCE CORP.
10 3/8% SECURED NOTES DUE 1995

NOTICE OF SUCCESSFUL CLOSING OF SALE OF 59 MAIDEN LANE AND OF DISTRIBUTION OF CASH AND LITIGATION TRUST CERTIFICATES

On February 3, 1999, the sale of 59 Maiden Lane to a designee of Amtrust Realty Corp. closed successfully for the price of $75 million. Those funds, together with approximately $68 million which was received in late December 1998 pursuant to the settlement with The Home Insurance Company ("Home") and other funds previously received from rental payments and other sources, are being held by Marine Midland Bank, as Trustee, for the benefit of the holders of the 10 3/8% Secured Notes due 1995 (the "Notes") of Olympia & York Maiden Lane Finance Corp. ("Finance Corp.").

In accordance with the terms of the Joint Plan of Reorganization (the "Plan") of Finance Corp. and Olympia & York Maiden Lane Company LLC, each Noteholder should receive shortly from its broker a letter of transmittal which, after completion, should be returned to the broker for tendering, together with that holder's Note certificates, to Marine Midland Bank, as Trustee. Upon receipt of the letters of transmittal and the Note certificates, Marine Midland Bank will distribute an aggregate amount of $146,000,000.00 in cash, plus 200,000 Units of Litigation Trust Certificates to all of the Noteholders. Accordingly, each $1,000 original principal amount of the Notes will receive $730.00 in cash (which will be allocated in the amount of $639.33 to principal and $90.67 to interest)* and 1 Unit of Litigation Trust Certificate. The Litigation Trust Certificates evidence the right to any proceeds received from the litigation currently pending against Zurich Insurance Company, Home, and certain Zurich affiliates arising from a series of transactions which took place in 1995.

Pursuant to the terms of the Plan, Marine Midland Bank has established certain reserves for payment of various outstanding claims. After those claims are resolved, it is expected that one or more further distributions of cash will be made to the Noteholders.

The Trustee continues to work closely with the ad hoc Committee of Noteholders in the foregoing matters. Holders interested in communicating with the Trustee should write to Mr. Metin Caner, Vice President, Marine Midland Bank, 140 Broadway, New York, N.Y. 10005-1180 (fax no. (212) 658-6425). Counsel for the Trustee is David E. Retter, Esq., of Kelley Drye & Warren LLP. Counsel for the Committee and special counsel to the Trustee are Daniel Golden, Esq., and Lisa G. Beckerman, Esq., of Stroock & Stroock & Lavan LLP. Holders interested in contacting the Committee may call Mr. Golden (at (212) 806-5423), Ms. Beckerman (at (212) 806-5535) or Mr. Retter (at (212) 808-7576).

Dated as of February 5, 1999

Marine Midland Bank,
as successor Indenture Trustee

*Each Holder is urged to contact its own tax advisor concerning the tax treatment of the distribution.

OPENINGS

COPENHAGEN
An exhibition opening on Saturday at the Louisiana Museum of Modern Art at Humlebaek testifies to Henri Cartier-Bresson's unique status in the field of photography. First seen last year at London's Hayward Gallery, the show sums up his output from the 1930s to the present day.

LONDON
Starting tomorrow, two galleries at the Tate will be devoted to the work of Francis Bacon (right, photographed by Cartier-Bresson). One provides the first public opportunity to see sketches he kept secret for many years. The other features a selection of paintings 1944-68, including the seminal "Three Studies for Figures at the Base of a Crucifixion".

Titan of the jazz saxophone David Murray (left) brings his "Creole Project" to the Queen Elizabeth Hall on Sunday. The octet mixes modern jazz with the traditional rhythms of Guadeloupe and features US flautist James Newton.

Declan Donnellan's staging of Corneille's *Le Cid*, seen last year at the Avignon Festival, opens at the Riverside Studios tomorrow. Performances are in French, with English subtitles.

NEW YORK
A new comedy by Paula Vogel, Pulitzer Prize-winning author of *How I Learned to Drive*, opens off-Broadway at the

Pels/Roundabout Theatre on Thursday. *The Mineola Twins* explores American suburban life in the decades after World War II, and stars Swoosie Kurtz as the twins.

CARDIFF
Peter Stein's eagerly-awaited new staging of *Peter Grimes* for Welsh National Opera is unveiled tonight at the New Theatre. Carlo Rizzi conducts; and the title role is sung by John Daszak. The production visits Sadler's Wells Theatre in London at the end of March after a tour of south west England.

MILAN
The only Verdi production at La Scala this season is *La forza del destino*, opening tomorrow. Riccardo Muti conducts a

staging by Hugo de Ana, with a cast headed by Inès Salazar and José Cura.

GLASGOW
Written more than a century ago, Delius's opera *The Magic Fountain* had to wait until 1979 for its first hearing in a BBC radio broadcast. It was finally staged two years ago in Kiel, and receives its UK stage premiere on Saturday at the Theatre Royal. Scottish Opera's production is conducted by Richard Armstrong and staged by Aidan Lang.

WASHINGTON
The retrospective of John Singer Sargent (left), recently seen at the Tate in London, opens at the National Gallery of Art on Sunday. Comprising 113 paintings from collections around the world, it can be seen in Washington until May 31, and thereafter in Boston.

Nothing short of a revelation: bearded and barefoot, John Tomlinson's Moses is every inch the Old Testament patriarch

'Moses' finally conquers the Met

The New York audience has been won over by a triumphant performance of a difficult opera, reports **Andrew Clark**

If *Moses und Aron* had been the work of a living composer, it would have been booed off the stage of the Metropolitan Opera last week. If it had dealt with a theme other than one of intense significance to New York's large Jewish population, it might have been too commercially risky to put on. But, half a century after Schoenberg died in American exile, *Moses* has finally reached the Met.

That signifies some sort of revolution, because the rich patrons who bankroll the Met do not normally choose to spend their evenings listening to 12-tone rows. *Carmen*, *Aida* and *Die Fledermaus* are their preferred diet. Last week they got their fill of Schoenberg, a composer blamed by many for starting the rot in classical music. They heard an unfinished work with just two principal roles, one of which is supposed to be half-spoken. Far from scurrying off at the interval, most of the audience stayed and cheered.

That prompts two conclusions. First, *Moses und Aron* is not the operatic turn-off it was long considered to be. With the passing of time its idiom has become more approachable – and more performable. Second, the Met is developing an increasingly schizoid personality: you'll often find sub-standard nights of popular Italian repertory in the same week as powerful performances of unpopular 20th-century titles. In addition to *Moses und Aron*, this season's repertory includes *Wozzeck* and Carlisle Floyd's *Susannah*. They will soon be joined by John Harbison's *The Great Gatsby* and Busoni's *Doktor Faust*. What all this suggests is that, buried inside the world's biggest opera factory, an artistic conscience is struggling to get out.

Moses und Aron is not new to US audiences. The Opera Company of Boston gave the US premiere in 1966, a year after the first Covent Garden staging, and New York City Opera performed it in 1990. These were the courageous exploits of adventurous companies. Putting the opera on at the Met, with 3,800 seats to fill, required a special commitment. The pivotal figure was James Levine, who first conducted it in Salzburg 10 years ago.

Those performances, in a Ponnelle production with the Vienna Philharmonic, had been special enough – but last Monday at the Met found Levine exerting a much more purposeful grasp on the score. I have never seen him beat as clearly as this: he and his outstanding orchestra treated the music like a rich tapestry – needle-sharp in detail, with a textured warmth and dramatic vivacity that you would never expect from the work's other great champion, Pierre Boulez.

But has the Met orchestra ever been so deservedly upstaged by its chorus? Schoenberg's dense choral writing came across with ravishing translucence, whether in the off-stage whispers at the burning bush or the Expressionist recitations of the Act 1 finale. And there was a confidence of attack in the ensembles that the Met rarely achieves in more familiar repertory. The triumph of this performance was the way it made extremely complex music sound simple – and dramatic.

There was a confidence of attack in the ensembles that the Met rarely achieves in more familiar repertory. The triumph of this production was the way it made complex music sound simple – and dramatic

For transatlantic visitors, interest centred on the choice of Graham Vick as producer and John Tomlinson as Moses. Vick has been having a wretched time of late, his career seeming to consist of a production-line of faltering inspiration. *Moses und Aron* represents a return to the vitality of his early work. Perhaps it has something to do with repertoire: not since his Met *Lady Macbeth of Mtsensk* five years ago has he supervised a show as brilliantly allusive as this.

The challenge facing the producer of *Moses und Aron* is the challenge which faced Schoenberg: to communicate an abstract vision without distorting or destroying it. Vick and his designer, Paul Brown, remain faithful to the rudiments of Schoenberg's biblical story, while underlining its theatrical energy and closeness to our own world.

The Israelites are dressed as 20th-century Jews, but behave like morally confused representatives of modern civilisation, where material values have replaced the old spiritual ones.

Act 1 resembles a Hockney landscape, fusing bright New Mexican colours, undulating desert perspectives and simple pyramid motifs. Act 2 takes place in an open-air arena, to which Moses finally descends on an elongated aircraft staircase. This postmodern flavour is intensified by a series of verbal "signposts" and an orgy which, in Ron Brown's choreography, sums up the moral degeneration of society. Syringes and stylised erections are the shocking visual shorthand here – a far more graphic, less voyeuristic image than the nudity favoured in Europe.

Vick gives the big set-pieces a swirling, unpredictable quality, in deliberate contrast to the concentrated stillness of Tomlinson and Philip Langridge in the title roles. Langridge's Aaron is the smooth-talking spin-doctor *par excellence*: he wears a mask of calculated innocence, and sings with unfailing fluency – no more so than in the Act 1 prayer, which he rounds off with an exquisite *fil di voce*.

Tomlinson's Moses is nothing short of a revelation. Bearded and barefoot, he is every inch the Old Testament patriarch, and his quizzically dumbstruck expression says all that has to be said about Moses's inability to communicate. But what really distinguishes Tomlinson's interpretation is the way he pitches the words: it's done with such precision that the part sounds more sung than spoken. I hadn't imagined it could be done as musically as this, or as convincingly. This was Tomlinson's belated Met debut. He has the voice and the presence to fill the house, and it can't be long before he's back.

Further performances: February 17, 20, 23, 26 (212-362 6000). Saturday's matinée performance will be broadcast live on BBC Radio 3 and several other European stations

NEW YORK MUSIC

Conductors fit the bill

Two American orchestras, with two very different conductors, brought two successful concerts to New York recently. The Dallas Symphony Orchestra and its conductor of five years, the youngish American Andrew Litton, brought Walton's blockbuster oratorio *Belshazzar's Feast* to Carnegie Hall in a triumph of savvy, high-impact programming.

Meanwhile, the very suave, very polished Riccardo Muti, mostly absent from these shores since leaving the Philadelphia Orchestra in 1992, made his debut with the New York Philharmonic. Everything in his repertoire, including Ravel's *Bolero*, received an intimate, attentively manicured interpretation where nothing sounded over-played.

First Dallas. Accustomed to its acoustically reverberant Meyerson Symphony Center back home, the DSO's muscled sound was often overwhelming in Carnegie's brighter acoustic. Litton's deliberate manner with the Elgar Introduction and Allegro for String Quartet and String Orchestra offered no miracle of insight, yet was cosy and firm. Likewise, his emphasis in Debussy's *La Mer* towards warm, plush inflections overshadowed the overall fine pacing, the shaded woodwinds, and the splendid muted brass solos. It made for stock romantic playing, where Debussy lost all uniqueness.

What they'd been waiting to unleash was Walton's biblical "handwriting on the wall" narrative, and the performance crackled with confidence. Litton took heaps of praise for a recorded version of *Belshazzar's Feast* during his days with the Bournemouth Symphony, and it remains as near a guaranteed success for him as any conductor could hope to find. It requires huge forces – large orchestra, large choir, antiphonal brass bands stationed in the balconies, assertive percussion, and Litton clearly knew he could pull it all together. David R. Davidson directed the Dallas Symphony Chorus, which commanded great presence, true pitch and enormous volume. Alan Opie's rich baritone enhanced the texts.

Standards have steadily improved since Litton (b. 1959) took over in Dallas. Until recently he seemed destined for a major orchestral post, but with his natural talent and early success has come a tendency to coast. He still scores well with the same speciality pieces, but there's little evidence now of a curious, ever-deepening musician.

Riccardo Muti's artistry was damned with faint praise by the time he left Philadelphia – in part a reaction to 12 years of perceived haughtiness, in part for internationalising the velvety "Philadelphia sound" cultivated by his predecessor, Eugene Ormandy, in part for fighting a losing battle for a new concert hall. Now with prominent bases in Milan and Vienna, he has scarcely been in front of a US orchestra in five years.

His Philharmonic debut pointed up strengths we always knew about – and reminded us also how few conductors of his stature are around these days. For Muti the usually harsh NYPO strings sang sweetly, the finest I've heard here since Valery Gergiev conducted last season. Brahms's First Serenade came off tautly, with suppleness and an unexpected, gripping tension. No luxury of sound is possible in the uneven, desiccated Avery Fisher Hall, yet in four movements from Busoni's infrequently heard gem, "Turandot" – same source as the Puccini opera – Muti conveyed architectural strength through prominent lower strings, an old-school germanic technique.

Muti, a thoughtful and exacting interpreter of the 18th and 19th-century repertoire, has finally cut through the hype that accompanied his earlier stint in America. In *Bolero*, he was solid and sure, as expected, sensuous and not the least bit vulgar, as if lucidly stating: "Here's a work for pleasure. Enjoy it."

Pierre Ruhe

INTERNATIONAL Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Carmen: by Bizet. New staging by Andreas Homoki, conducted by Edo de Waart. The designs are by Wolfgang Gussmann and Gabriele Jaenecke, and the cast includes Carmen Oprisanu and Martin Thompson; Feb 15, 18, 21

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Faust: by Gounod. Conducted by Sebastian Lang-Lessing in a staging by John Dew; Feb 19

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
Lady Macbeth of Mtsensk: conducted by Antonio Pappano in a new staging by Stein Winge, with sets by Benoît Dugardyn and costumes by Jorge Jara; Feb 16, 19, 21

CARDIFF

OPERA
Welsh National Opera
Tel: 44-1222-464 666
Peter Grimes: by Benjamin Britten. Carlo Rizzi conducts a new staging by Peter Stein. With sets by Stefan Mayer and costumes by Moidele Bickel. Cast includes John Daszak and Janice Watson; Feb 15, 20

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
● Der Rosenkavalier: by R. Strauss. New staging by David McVicar, conducted by Richard Armstrong. The cast includes Joan Rodgers; Feb 18
● The Magic Fountain: by Delius. Conducted by Richard Armstrong in a new staging by Aidan Lang, with designs by Ashley Martin-Davis; Feb 20

LAUSANNE

EXHIBITION
Musée Cantonal des Beaux-Arts
Tel: 41-21-312 8332
Courbet – artist and promoter: more than 70 paintings by Gustave Courbet (1819-77), including landscapes, portraits and nudes. The exhibition concentrates on Courbet's artistic output after 1855, especially work produced during his exile in Switzerland; to Feb 21

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: conducted by Myung-Whun Chung in works by Rachmaninov, with piano soloist Jean-Yves Thibaudet; Feb 18
● London Symphony Orchestra and Chorus: conducted by Myung-Whun Chung in Mahler's Symphony No. 2, with soprano Andrea Dankova and alto Sara Mingardo; Feb 21

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in the world premiere of John Adams' Naive and Sentimental Music. Programme also includes works by Haydn and Schumann. With cello soloist Heinrich Schiff; Feb 19, 20, 21

EXHIBITION
Los Angeles County Museum of Art
Tel: 1-213-857 6000
www.lacma.org
June Wayne: A Retrospective. Survey of the artist's printmaking work from 1946 to 1995; to Feb 15

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● BBC Philharmonic: conducted by Peter Maxwell Davies in the UK premiere of A Reel for Seven Fishermen, and by Vassily Sinaisky in works by Beethoven and Shostakovich, with piano soloist Lars Vogt; Feb 20
● Mikhail Pletnev: recital by the pianist of works by Chopin, Grieg and Schumann; Feb 17

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Munich Philharmonic Orchestra: conducted by Ingo Metzmacher in works by Schubert and Henze; Feb 21
● Prague Symphony: conducted by Tomás Koutnik in works by Dvorák and Mendelssohn-Bartholdy, with violin soloist Pavel Sporcl; Feb 19
● Salzburg Mozart Orchestra: conducted by Hubert Soudant in works by Beethoven and Tchaikovsky, with piano soloist Valéry Afanassiev; Feb 20

NEW YORK

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
Celebrating Five Decades of Repertory: continuing 50th anniversary celebrations; Feb 16, 17, 18, 19, 20, 21

EXHIBITION
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
Jim Dine: Walking Memory, 1959-1969. More than 100 works make up this survey of the American artist, including photographs, paintings and performance pieces; to May 16

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Moses und Aron: by Schoenberg. Conducted by James Levine in a staging by Graham Vick, with sets and costumes by Paul Brown. Cast includes Philip Langridge and John Tomlinson; Feb 17, 20

NEWCASTLE

CONCERT
City Hall
Tel: 44-191-261 2606
Royal Liverpool Philharmonic Orchestra: conducted by Jun'ichi Hirokami in a programme of French music including Canteloube's Songs of the Auverge and Berlioz's Symphonie Fantastique, with mezzo soprano Della Jones; Feb 19

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Christoph von Dohnányi in works by Donatoni, Bloch and Beethoven. With cello soloist Eric Picard; Feb 17, 18

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
● Natalia Gutman: morning recital by the cellist of works by Bach and Hindemith; Feb 21
● Orchestre National de France: conducted by Pinchas Steinberg in works by d'Indy, Saint-Saëns and Prokofiev, with piano soloist Jean-Philippe Collard; Feb 19

EXHIBITION
Musée du Louvre
Tel: 33-1-4020 5151
www.louvre.fr
Eternal monuments of Ramses II: New Theban excavations. Display of the latest archaeological findings from the Egyptian pharaoh's tomb; to May 10

OPERA
Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Opéra National de Lyon: Zelmira, by Rossini. Conducted by Maurizio Benini in a staging by Yannis Kokkos. The title role is sung by Mariella Devia; Feb 15, 17

ROME

EXHIBITION
Palazzo Venezia
Tel: 39-06-841 2312
'700 Veneziano: Capolavori da Ca' Rezzonico. Display of 18th-century Venetian art, lent by the Venetian museum to the Palazzo Venezia, which once housed the city's ambassador to Rome. Includes works by Canaletto, Guardi, Longhi and Carlevarijs; to Feb 18

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Tokyo City Philharmonic: conducted by Taijiro Iimori in works by Vivaldi and Bruckner; Feb 15

VIENNA

EXHIBITION
KunstHausWien
Tel: 43-1-712 0495
Jean-Michel Basquiat: Paintings and Works on Paper. 100 works on loan from the Mugrabi Collection make up the first show in Austria devoted to the black-hispanic US artist, who died in 1988; to May 2

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

PERSONAL VIEW WILLIAM M. DALEY

Bribery: no longer business as usual

Every country in the world should enact and enforce strong laws against acceptance and solicitation of bribes by public officials

In recent weeks, the Salt Lake City Olympics scandal has surprised and disappointed the world. But the sad fact is that this sort of corruption is not unique. Bribery of government officials has been an all too frequent factor in international business transactions, for example, not only in the early parts of *this century but right up to* the present day. In the year between May 1997 and April 1998, we identified instances of bribery in more than 60 important international contracts valued at nearly \$30bn. And most of the world simply looked the other way.

Today several countries take an important step in the fight against corruption. The OECD Convention on Combating Bribery requires signatory nations to criminalise bribery of foreign public officials in a manner similar to that of the *US Foreign Corrupt* Practices Act. That Convention takes effect today in the US and the 11 other countries that have adopted implementing laws: Iceland, Japan, Germany, Hungary, Finland, the United Kingdom, Canada, Norway, Bulgaria, Korea, and Greece.

Unfortunately, 22 of the countries that signed the Convention 14 months ago have not yet acted. Four of these nations – France, Italy, the Netherlands, and Belgium – represent almost a quarter of all OECD exports. We need them, and all the others, to keep their commitment.

The core concept of the *convention is very simple:* a country should outlaw acts of bribery directed toward the officials of another sovereign state. Even so, the agreement took more than eight years to negotiate. The entrenched interests trying to keep bribery "business as usual" were hard to beat.

These interests are still trying to maintain the status quo. For that reason, enactment of legislation prohibiting bribery will not be enough to make the convention's promise a reality. Every signatory's laws must be examined to ensure that they live up to the letter and the spirit of the agreement. The OECD *will be doing precisely* that over the next year. I hope the outrage about the Olympics will cause the spotlight of public scrutiny to focus on these efforts and spur every nation to live up to its commitment.

Unbelievably, several OECD member countries still allow tax deductions for bribes paid to foreign officials. Others allow tax deductions for these bribes unless there has been a criminal prosecution and conviction relating to the particular instance of bribery. And still others *allowcertain violations, with* their roots in the past,to continue unabated.

After legislation is enacted, the battleground will shift to enforcement. The OECD countries have agreed to review each other's enforcement efforts.

Lessons for the world: Robert Garff, chairman of the Salt Lake Olympics organising committee, takes questions

Why is the effort to stamp out bribery so important? First of all, because it's right. But also because bribery of public officials hurts real people

We need public attention to ensure that strong laws do not become dead letters *because prosecutors decide* bribery is a low priority or that it deserves no attention.

Why is the effort to stamp out bribery so important? First, because it is right. But also because bribery of public officials hurts real people. Citizens of a country with corrupt officials must suffer under, and pay for, *government decisions* motivated by the self-interest of bureaucrats and elected officials, not by the best interests of the nation. And if the Asian financial crisis has taught us anything, it is that government corruption creates a financial structure that cannot be maintained. That is why the *international business* community is one of the strongest supporters of this convention.

Although the convention is an important step, it is only a first step. The OECD has more work to do, addressing outstanding issues not fully covered in the convention, such as *bribes to political parties,* candidates, and party officials.

And the OECD agreement addresses only the so-called "supply side" of corruption – companies and individuals who offer bribes. We also must address the "demand side". Every country in the world should enact and enforce strong laws against the solicitation and acceptance of bribes by public officials. We stand ready to work with the private sector, other governments, and non-governmental organisations to assist in these efforts.

It is time to get serious about bribery and corruption *worldwide. If the Olympic* scandal has taught us anything, it is that we cannot tolerate bribery as "business as usual". It is simply unacceptable.

William M. Daley is US Secretary of Commerce.

LETTERS TO THE EDITOR

Running Europe is too important a job to be left to the politicians

From Mr David Marsh.

Sir, Soon it will be once again time for another round of unedifying horse-trading over the top job in the European Union. At a crucial juncture, governments are due to choose by the sum*mer a successor to Jacques* Santer as the president of the European Commission.

According to accepted wisdom, the new leader will be a politician, drawn from the ranks of the centre-left parties now dominating EU governments, probably from one of the countries which have not held the job in the last two decades, ie Germany, Italy, Portugal or Spain.

Might I suggest a radical *departure? A business* leader, not a politician, is the right person to head the Commission in the new millennium. Drawing a figure from the top echelons of one of Europe's largest companies or business organisations could be part of a far-reaching reshaping of the way the Commission is run.

The potential advantages are clear. Finding the person who can manage the Commission effectively, deliver value for money on its spending programmes and offer able and cohesive guidance to governments on urgently-needed EU reform could do wonders for Europe's image. The recent *showdown* with the European parliament over alleged corruption within the Commission underlines the necessity of such a facelift. A leader with business acumen, political skills and a firm vision of a vibrant Europe could make an enormous contribution to ensuring the continent's competitiveness as it enlarges eastwards.

Of course, realising this *proposal would not* be easy. Few business representatives have these types of characteristics. Even if such a superhuman existed, it can be argued, he or she *would* lack political support and would become frustrated in dealings with governments and civil service bureaucracies.

Furthermore, companies employing the best candidates would hardly be expected to send them to Brussels. And the chosen person would face a substantial pay cut.

With will and imagination, these obstacles could be overcome. Awarding the right candidate new powers over the make-up and policies of the Commission would imbue a putative president-from-business with the status and influence to do the job properly. *A moderate* pay rise would increase the attractions.

Even if politically astute, linguistically gifted European managers with a proven track record of running multinational corporations do not grow on trees, there are half a dozen people on the corporate scene who could carry out the task. Lionel Jospin, Tony Blair and Gerhard Schröder should *start the selection process* now. Running Europe is too important a job to be left to the politicians.

David Marsh,
Robert Fleming & Co,
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London EC2R 7DR, UK

Schröder applauded

From Mr Klemens van de Sand.

Sir, It is opportune, ahead of the June G8 meeting, to give an additional impetus to the initiative of providing debt relief to poverty-stricken countries that have a track record of policy and institutional reform. Indeed, the manageability of their debt-servicing obligations is a critical prerequi*site to sustaining* their efforts of pro-poor policy and institutional overhaul, and for them to have resources available to finance the investments required to eradicate poverty.

Gerhard Schröder, the German chancellor, is enlightened when he stresses the particular problem of countries emerging from crisis, especially civil strife; and why not extend it to natural *disasters or financial* turmoil? Of course, the commonly agreed rules for engagement in debt relief must be adjusted to the specific causes, conditions and outlook for these countries.

The Rome-based International Fund for Agricultural Development is a leading agency of the UN in the fight against rural poverty. As a creditor to poor governments we are engaged in the World Bank/*International Monetary* Fund co-ordinated heavily indebted poor countries initiative. The speed and effectiveness of implementing this initiative and the pro-poor policy are also our concerns. We fully subscribe to Mr Schröder's *attention to the crisis*-affected countries and look forward to the G8 initiatives in this regard.

Klemens van de Sand,
assistant president,
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International Fund for Agricultural Development,
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Argentina: let goodwill prevail

From Mr Rogelio Pfirter.

Sir, I have read with interest Sukey Cameron's letter of February 3. It is by no means my intention to enter here into a debate on matters raised therein, which are best left to the normal course of diplomacy.

At the same time, I cannot fail to mention a rather untenable thought in her letter. Far from being "wholly unjustified", Argentina's claim in the South Atlantic has a sound historic and legal basis. This background led the UN to recognise the existence of the well-known *sovereignty dispute.* Even in Britain there are experts who have stressed that Argentina has a good case. There is no doubt in the minds of many that a proper legal scrutiny would bring satisfaction to Argentina.

Be that as it may, it would seem quite obvious that the spirit of reconciliation and goodwill made most evident in President Carlos Menem's recent visit to Britain is in the best interest of everyone involved. Rather than remain bogged in the past, we should look to the future. To this and to ever closer links with Britain, Argentina is firmly committed.

Rogelio Pfirter,
ambassador,
Embassy of the Argentine Republic
London W1, UK

Don't keep me hangin' on the telephone . . .

From Mr Mike Turner.

Sir, The answer to "Hold on and we'll play you a tune" (February 10) is for the "Your Call Is Important to Us Co Ltd" to sacrifice a minuscule proportion of the chief executive's huge and almost never justified by performance remuneration and hire a couple of ordinary mortals to answer the goddam phone.

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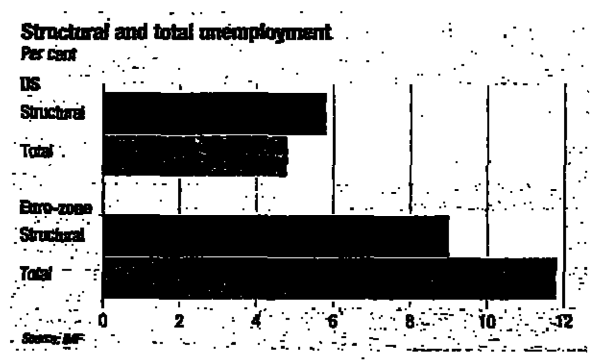
ECONOMICS NOTEBOOK WOLFGANG MUNCHAU

A tricky agenda

At the top of the ECB's list of policy goals is its determination to maintain price stability. But it may find euro-zone citizens have more complex expectations

The peace between Europe's central bankers and the politicians did not last long. Last week Oskar Lafontaine, the German finance minister, warned the European Central Bank that a failure to cut interest rates might have serious consequences for the economy.

The case for an interest rate cut is not apparent if judged purely by the ECB's definition of its policy goals and instruments. All the main parameters, such as monetary growth or current inflation, are well inside its targets. The problem is that the ECB may have defined its goals in such a way that the case for a rate cut may hardly ever be apparent.



Few have the opportunity openly to confront Wim Duisenberg, president of the ECB, on these issues; among those who can are members of the sub-committee on monetary affairs in the European Parliament, where Mr Duisenberg is regularly invited to give testimony.

So here are some matters that members of the committee may find helpful to consider before they next meet Mr Duisenberg on April 19.

Price stability is defined by the ECB as "a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2 per cent". To avoid misunderstandings, the ECB ruled out negative increases, so the de facto inflation target range is 0-2 per cent. This definition gives rise to some questions.

● Why is the inflation target band so wide?

This is particularly problematic in view of the ECB's legal obligation to support the economic policies of the European Union. The ECB's job is one of "constrained optimisation" – the need to support growth, constrained by the requirement to keep prices stable. But with such a wide band, it is difficult to pinpoint the moment when price stability has been reached, so one can switch policy to support growth. There is almost always an inflation rate which is lower than the current rate and still within the target. For example, the December inflation rate of 0.8 per cent is consistent with the target, but the same would be true of an even lower rate. A central bank's attitude towards price stability is marked by infinite greed: it can never have enough of it.

● *Modern central banks run* a symmetric monetary policy that is sensitive to extreme price movements in both directions. Is the ECB inflation band of 0-2 per cent truly symmetric?

In theory, any bounded range is symmetric, but not in a world of price rigidities, where some prices never go down. Price rigidities render an inflation band of 0-2 per cent asymmetric, since the lower bound – zero – is the point of maximum rigidity. A central bank with an asymmetric target is more likely to pursue a restrictive than an expansionary policy. With price rigidities, the chances of inflation falling below zero under a restrictive policy are much smaller than the chances of inflation rising above 2 per cent under an expansionary policy. In other words, a hawkish central banker with an asymmetric target can never be *completely wrong.*

Now consider a symmetric target. If price stability had been defined as an annual increase in the HICP of exactly 2 per cent, the ECB would face approximately equal chances of landing above or below that level. In this environment, it is possible that a persevering hawk could turn out to be a lousy central banker.

● Is it the case that an asymmetric inflation target tends to be successful during *inflationary times, while* the more mixed monetary environment of the late 1990s calls for greater symmetry?

The Bundesbank took the view that inflation could never be too low and that deflation was extremely unlikely. But the Bundesbank operated in an inflationary environment for a large part of its short existence.

The ECB, by *contrast,* operates in an environment virtually free of inflationary pressures, yet it displays a similar anti-inflationary bias. The result is not necessarily deflation – defined as a *persistent fall in the price* level – because of the large number of rigid prices.

European central bankers believe monetary policy is neutral, which means it does not affect unemployment in the long run

A more likely outcome is a scenario in which the economy grows well below potential, at high rates of unemployment with inflation close to zero but still mildly *positive. We might not be far* from this point, as inflation is heading towards zero, while the economy is slowing. A global stock market crash could trigger a downward spiral that could trap the euro-zone in an even more depressed state.

● Why do central bankers always say European unemployment is "overwhelmingly" structural when there is substantial evidence to the contrary?

European central bankers believe monetary policy is neutral, which means it does not affect unemployment in the long run. This is a convenient philosophy: it allows central bankers to set their targets in such a way that it is difficult for them to miss. It is certainly the case that structural unemployment is high in Europe. So is cyclical unemployment, which is caused primarily by swings in the business cycle. This in turn is heavily influenced by monetary policy.

During most of the 1990s, countries in the euro-zone suffered from large and persistent output gaps – the difference between potential and actual output. This gap has created a layer of cyclical unemployment over and above the rate of structural unemployment.

Structural unemployment is much higher in the euro-zone than in the US (see graph), but cyclical unem*ployment is still close to 3* per cent. It is also far higher than in the US, where it is probably negative. There may be some measurement errors, but it is hard to argue that the 12 per cent unemployment in the euro-zone is structural.

If price stability had been defined by European finance ministers, or by MEPs, one would almost certainly have ended up with a different and probably more symmetric definition. But the ECB is unique as a central bank, not just because of its independence but because it combines the right to determine targets and strategies and the power to implement the targets, while it is not strictly accountable.

The ECB defines its primary task as maintaining price stability. But it may find its clientele of euro-zone citizens – and the odd MEP on the monetary sub-committee of the European Parliament – has a more complex set of expectations.

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FINANCIAL TIMES
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Yeltsin and Russia's chill

The weekend call for Boris Yeltsin to resign as Russia's head of state, and pave the way for new elections, is scarcely unexpected. It came from an influential group representing a broad spectrum of the new Russian establishment in government, industry and the *intelligentsia*. He should heed it.

Mr Yeltsin is clearly incapacitated by ill health. By all accounts, in spite of his appearance at King Hussein's funeral last week, he is unable to focus on the issues of the day. By holding onto the reins of power, without being able to use them, he is creating more instability than if he were to quit. All the potential contenders are jockeying for power in a political vacuum.

Since the implosion of the Russian economy last summer, the country has existed in a state of virtual hibernation, where inactivity has masqueraded as stabilisation. Yevgeny Primakov, the former intelligence chief and foreign minister, has done a remarkable job as prime minister in the vacuum, at least arresting the collapse. But he has not come up with any clear ideas on how to promote an economic recovery.

Both industrial production and aggregate demand seem to have settled at around 90 per cent of the 1995 level, although spending on new construction and equipment continues to plummet. Annual inflation is running just short of 100 per cent, which is not as bad as most observers feared, although still scarcely sustainable. The government is certainly printing money to balance its budget, but not as irresponsibly as had been expected.

The most disturbing aspect is that the government seems unable to exploit the one positive factor in its economic environment: a monthly trade surplus running at some \$3bn. That is happening in spite of the low oil price, partly thanks to the slump in imports. But the foreign exchange reserves of the central bank are still declining, which shows that the money is leaking straight out of the country in massive capital flight.

It is the new Russian elite which is responsible, and confidence in the authorities will have suffered further from the revelation that the central bank itself used to hold an undeclared offshore account. Until Mr Primakov's government has that situation under control, it is impossible to see how the International Monetary Fund could agree to resume its lending, which in turn is a precondition for any agreement on restructuring Russia's debts.

A combination of the financial crisis, and Mr Primakov's astute use of his old KGB contacts, has clipped the wings of the business oligarchs who were allowed by Mr Yeltsin to grab control of vast swathes of the Russian economy. That is certainly to the good. The prime minister claims to have cleared the jails of non-violent prisoners to make way for those found guilty of corruption. That should put the fear up many. But simply reimposing the discipline of the old KGB, as seems to be happening in the media, is the wrong answer.

What is needed is strong government, but also transparent government, to prevent the reemergence of another "mafia" in power. If Mr Yeltsin goes now – as he should – it would clear the way for new elections. That is the correct constitutional process. It would be wrong for Mr Primakov, or anyone else, to gain power in a creeping coup, because the president failed to quit in time. That was the old way, and its poison has yet to be cleared from the system.

Fading Starr

Kenneth Starr, the US independent prosecutor, should heed yesterday's call from senior Republican and Democratic senators and drop any plans he may be developing to mount a criminal prosecution of President Bill Clinton while in office. Indeed, Mr Starr should now wind up his operation with all speed.

He has pursued Mr Clinton with a single-minded and obsessive vigour. But now the Senate has decided to acquit Mr Clinton, he must accept its decision.

Outstanding tasks remain. The reports on the Whitewater land deal and the White House travel office, which did not feature in the case against the president, should be produced quickly and quietly. But a criminal indictment of Mr Clinton while he is in office, reportedly under consideration, would go beyond the role of the independent prosecutor, which is to present the facts to Congress.

A Department of Justice investigation of Mr Starr's methods is also unnecessary. His zeal may have led to unseemly behaviour, but investigating the investigator will only drag this sorry saga on longer. In 1997 Mr Starr was forced to cancel his plan to resign as independent counsel, and decamp to Pepperdine University, amid Republican outrage that he was walking out on the job. Now the task is done, he should hurry up and announce his departure.

UK Budget

A slow-down which avoids a recession in Britain this year would leave Gordon Brown with a fair slice of the credit. Yet the chancellor's strategy for ending "the cycle of boom and bust" has greatly reduced his influence over short-term economic management. So the focus of the annual Budget has shifted from the overall fiscal stance towards more detailed measures.

By agreeing public spending totals for the remaining three years of this parliament, Mr Brown has created a presumption he will not make big changes to the overall balance. And if he did raise or lower the tax burden significantly, the Bank of England would react with offsetting changes to interest rates.

There is in any case little reason to make a big change this year. The Bank's latest forecast suggests that after a slow-down in the next six months the economy will recover at a rate consistent with its long-term capacity to grow. And if a further stimulus were needed, another cut in interest rates would be a better way to achieve it than fiscal loosening.

What then is left for Mr Brown to do in his Budget on March 9? Last November he set out several broad objectives. These included further improvements in incentives to work, along with efforts to raise UK productivity; to reduce greenhouse gas emissions, and to encourage savings and reform benefits.

So far, however, these grand visions have not been matched by coherent strategies to realise them. Even in its welfare to work programme, where the government can claim most progress, there have been inconsistencies. Thus, the minimum wage may make work more attractive, but it will reduce the supply of jobs. And as the Bank noted in its latest Inflation Report, the new Working Families Tax Credit will have only a very small effect on the labour market. The populist proposal for a 10 per cent income tax band will do nothing for the unemployed and is unlikely to help the lowest paid.

To meet its other objectives, the government has suggested a mixed bag of measures. They might be scattered around to some effect. But without a clear strategy, they may have unintended or perverse consequences. It would be sensible, for example, to tax energy to help reduce greenhouse gas emissions. But how is this to be reconciled with a policy of reducing the tax on domestic heating fuel?

The idea of taxing the child benefit paid to richer families sounds superficially fair, but it would raise big issues of principle in relation to the separate taxation of husbands and wives. Then again, the suggested tax-exempt scheme for retirement savings has its merits; but it could add to the confusion of regulations, and it is unclear how it would fit in with the wider reform of pensions.

More generally, there is a danger that, having set the macroeconomy on auto-pilot, Mr Brown will search for ad hoc tax changes to prevent headline writers from calling his Budget boring.

Instead, he should say that his rules of macro-economic stability will be extended to the tax and benefits system, that he will make infrequent changes, and then only when he knows exactly where they are leading.

Back on the brink

With the Northern Ireland peace process under threat as the main players stand deadlocked over the arms issue, it is imperative that a compromise is found, says John Murray Brown

The issue can no longer be ignored. In the next few weeks, the dispute over terrorist arms looks set to make or break Northern Ireland's fragile peace accord.

Ten months after the Good Friday agreement, unionists and republicans are engaged in a trial of strength over whether Sinn Féin should be allowed to take seats in the province's new devolved government while the IRA, the party's military wing, holds on to arms. With politicians engaging in brinkmanship rather than looking for compromise, the danger remains that the province could be tipped back into violence.

Today the assembly will meet to ratify the proposed government structures agreed by the parties before Christmas. The initiative will then rest with Mo Mowlam who, as the Northern Ireland secretary, has powers to trigger the formation of the 10-member power-sharing executive which will take over running the province from London.

The government has set a target date of March 10 for responsibilities to be formally transferred from Westminster, but Ms Mowlam concedes some slippage is likely. If she proceeds with the establishment of the cabinet without the IRA starting to disarm, it is unlikely the Ulster Unionists will take up their posts. With the antiagreement Democratic Unionists certain to decline the offer, the executive would effectively be dead.

If, on the other hand, Ms Mowlam allows the timetable to drift, Gerry Adams, the Sinn Féin president, has indicated the party would seek legal action against the government, while the political vacuum could be filled by dissidents intent on wrecking the process. Security chiefs are worried the IRA may resort to its "tactical use of armed struggle" with a swift bombing campaign, probably against targets on the UK mainland.

In such an atmosphere, suspicions abound. The Irish government was yesterday forced on to the back foot after newspaper reports suggested Bertie Ahern, the prime minister, endorsed the unionist position on prior decommissioning. But a government spokesman said Mr Ahern simply made the point that it was "unreasonable to expect the executive to be set up without an understanding of how the implementation of decommissioning would be taken forward". The clarification will have gone some way to reassure republicans but will have done little for unionist confidence.

But to outsiders, it is inconceivable that all that was painstakingly achieved by the Good Friday agreement could now unravel over what is an issue of timing, not substance.

On the face of it, the Ulster Unionist position seems reasonable. After all, public confidence in the new institutions could be badly damaged if Sinn Féin were sitting around the cabinet table while the IRA remained fully armed – albeit on ceasefire – outside the door.

Even the Irish government, which hitherto has argued it was premature to seek IRA decommissioning, conceded yesterday it was time republicans at least signalled their intent. However, by the letter of the agreement, Sinn Féin is under no obligation to meet the unionist request. Republicans feel unionists are using the issue to exclude them from government. To the sceptical in the IRA's heartland, the row will be seen as evidence that the Protestant majority has still not come to terms with the need to share power with Catholics.

Martin McGuinness, Sinn Féin's chief negotiator, complained that the unionist veto had been resurrected, pointing out the IRA guns were not in use, which he said "underlines the IRA commitment to the search for a lasting peace settlement".

But beyond the brinkmanship is a deeper struggle over what the past 30 years have been about. The government's objective from the start of the peace process has been to secure Sinn Féin's place in democratic politics, in a way that stops the violence but also wins unionist acquiescence. Many ordinary unionists, however, feel democratic principles have been sacrificed for political expediency.

Unionist suspicions have been further aroused by the failure of the government to act against republicans for so-called punishment attacks, which is seen as evidence that the IRA is still prepared to use violence to get its way. On the other hand, republicans argue that in a resolution of a conflict where neither army is defeated, decommissioning by one side would be tantamount to surrender.

The government has refused to take sides in the dispute, while acknowledging the difficulties both face. Officials say most other aspects of the agreement are falling into place. On security issues, Chris Patten's police commission is due to report this summer on reforming the Royal Ulster Constabulary. More than 200 paramilitary prisoners – republican and loyalist – have been freed under the accelerated remission scheme contained in the agreement.

The agreement, however, is vague – deliberately so – about what is required of the paramilitaries on decommissioning. Seamus Mallon, the nationalist deputy first minister, acknowledges it might have been better to nail down the issue, but he says the critical negotiations were left to the two governments.

The document says only that parties "work constructively and in good faith" with General John de Chastelain, who was appointed to oversee the destruction of arms, to achieve the decommissioning of all paramilitary arms by May 2000.

While it is not a precondition for Sinn Féin to be in the executive, the hope is that the IRA may feel more inclined to make a move once they see that the institution is up and running. Moreover, as all parties reap the benefits of the agreement, there would be public pressure on the politicians not to jeopardise progress by resurrecting the decommissioning issue.

The Ulster Unionists, however, say the requirements have already been massively watered down, from arms before talks to arms during talks – and now arms after talks.

If no gesture is forthcoming, the Ulster Unionists look set to table a motion to have Sinn Féin expelled. This would require the support of the moderate nationalist Social Democratic and Labour party, which would be unlikely to be given.

David Trimble, the Ulster Unionist leader, would then have to decide whether to pull out of the process or take the plunge in the hope that, with the SDLP's support, the IRA would be forced to move on decommissioning.

Brendan O'Leary, politics professor at the London School of Economics, says if the Ulster Unionists were to take up their seats, they would seize the moral high ground and "the clock would start ticking on decommissioning from day one".

However the Ulster Unionists could invoke a provision which allows the agreement as a whole to be reviewed, thus bringing the process to a standstill.

One possible way out is for Ms Mowlam to establish the executive in shadow form only, ready to accept the powers to be transferred from Westminster. The appointment of ministers with shadow powers would provide a clear signal of the unionists' willingness to accept Sinn Féin into the cabinet. The hope is that this would create the space for republicans to offer something on decommissioning.

On Wednesday business leaders warned of the consequences of stalemate. They proposed that the setting-up of the executive should take place simultaneously, with the IRA and loyalist paramilitaries making the first moves on arms. However, as one unionist official said: "The problem we face is that Sinn Féin says the IRA will not decommission at all."

Any decision by Mr Trimble to compromise will contain a calculation of his chances of survival. He has already seen the defection of one assemblyman to the anti-agreement camp, leaving the unionist block in the assembly split 29:29. Although key decisions can be pushed through with just 40 per cent of unionist support under the complicated power-sharing rules, it is unlikely Mr Trimble will want to move ahead unless he can be assured of majority support from within his own community.

Mr Trimble has to overcome a meeting of his party's 900-strong council on March 20. He will also have one eye on the forthcoming campaign for the European elections in June.

As he has done in previous contests, Ian Paisley, leader of the Democratic Unionists, is certain to out-poll Mr Trimble's candidate. With Robert McCartney, maverick leader of the tiny UK Unionists, hinting he may put up candidates in the election, the unionist vote could be further shredded, playing into Mr Paisley's hands.

An opinion poll last week suggested Mr Trimble had the overwhelming backing of party grassroots, but officials say his popularity is dependent on holding the line on arms. Mr Adams faces much less public dissent. However, Mr Adams must be concerned to avoid the internal splits that have afflicted the republican movement down the years.

While the deadlock persists, the possibility of a last-minute intervention by Tony Blair, the prime minister, or Bill Clinton, the US president, looks increasingly likely.

A compromise needs to be found. Both Mr Trimble and Mr Adams have staked their futures on the success of the Good Friday deal. Therein lies the main hope that a crisis can be avoided.

OBSERVER

Beefing up The Bay

Desperate times demand desperate measures. And desperate is the word that best describes Canada's two most venerable retailers. Hudson's Bay Company, the 328-year-old trading operation, whose voyageurs and fur traders opened up the Canadian west, is reduced to an ailing department store chain losing customers to discounters such as Wal-Mart.

In an effort to appeal to the baggy pants crowd, the store hired a market research firm that recommended The Bay, as its retailing arm is known, become HBC. The strategy pioneered by Kentucky Fried Chicken, the US fast food chain now known only as KFC, is intended to make crusty old companies sound fresh again.

But monkeying with the moniker on Canada's oldest company hasn't gone down well with the Canadian public. After an outcry The Bay backed down and has announced it will keep its name – even with shares at a 12-year low.

T. Eaton Co, the department store chain controlled by Canada's most famous business family, should be so lucky. Half a century ago, Eaton's had almost 60 per cent of the Canadian department store market, but by 1997 it had declared bankruptcy. Since then, it's been trying to revive itself with new management and new customers. Now, however, its announced another profit warning.

That has started rumours it is about to be bought by Cincinnati-based Federated, putting one of Canada's most famous companies into American hands. Perhaps then the store will be known as The Fed. How could it lose money then?

Puddle muddle

Carnival in Panama doesn't have quite the same ring about it as Rio – and it might have something to do with the rules.

The festivities, centred on several days of spectacular water fights, have been in full swing. But revellers must pay attention to the strict dress code. In one town, revellers aren't allowed to wear masks or face paints: nor on any account can they dress as a policeman, fireman or nun.

In Panama City, fancy dress is out of the question in certain areas and after six o'clock at night – presumably to avoid a rash of pickpockets disguised as nuns. And anyone trying their best to make merry at least has the consolation of knowing the water they are spraying at each other has been inspected by the Department of Health.

But let's not forget those warnings that all the left-over puddles are perfect breeding grounds for disease-ridden mosquitos. With that sort of fun, makes you wonder why anyone should bother.

Cone alone

Britain's new super-watchdog for the financial services industry has been left with ice cream all over its face. A £10m advertising campaign by the Financial Services Authority was intended to bring the activities of the organisation to public attention.

But the advertisements, showing dishonest ice-cream sellers and public house bar staff, drew an immediate complaint from the UK Ice Cream Alliance, which says they've hit sales. The Alliance reckons that if the FSA wanted to show dubious characters to drive home its message it should have used much-criticised financial intermediaries and not someone selling ices.

Complaints have been lodged – but now several MPs are jumping on the bandwagon, demanding the advertisements are withdrawn and calling for an apology to ice cream makers everywhere. Shadow Chancellor Francis Maude, who's calling on chancellor Gordon Brown to make a statement on several aspects of the FSA's activities, is being kept up to date on events.

And that's not all. Now the Federation of Licensed Victuallers is up in arms – complaining of the FSA's depiction of thieving bartenders.

A spokesman adds: "In any case, it's nigh on impossible for staff to pinch money nowadays, given the sophisticated machinery in use." The campaign is due to run for weeks yet – and the FSA says it didn't intend to victimise anyone in particular. Observer suggests Howard Davies, SFA boss, stays away from ice cream sellers for a few more weeks yet.

Headlines

As rumours about cross-border mergers sweep the global automotive industry, Katsuhiko Kawasoe, president of Mitsubishi Motors, is under increasing strain. It seems everyone's been pressing him on what's really on his mind – and cornering him for a word "ofuriko" – the Japanese term for off-the-record.

But Kawasoe, who claims to be in talks with several foreign carmakers, is saying nothing on strategy for Japan's third largest carmaker. "I've been trying to paste my hair to my forehead so nobody can see what's going on inside," he giggles. So stand by for an announcement – and a change of hairstyle.

Smoked out

Could German chancellor Gerhard Schröder's fourth wife Doris be getting a bit grand? Offered a cigarette in a nightclub she's said by onlookers to have replied "Deutschland dankt" – Germany is grateful.

The Financial Times 100 years ago

Boon For Horses
Advertisement: "The greatest boon for horses: By special appointment to Her Majesty the Queen, the Martin Horse-shoe. The Martin Shoe is in use in Her Majesty's Stables, the Royal Mews, Buckingham Palace, and has been for more than three years past. The shoe is non-slipping and absolutely does away with the need for pads or screws, and leaves the foot perfectly open and free to allow of its natural growth. Among the many advantages of the Martin shoe are the following: prevents jarring or concussion of the horse's legs; is as light as, and wears longer than, the ordinary shoe; gives a horse confidence and a firm grip of the road."

50 years ago

Egypt And The Suez Canal
Cairo, Feb. 14. M. Georges Picot, a member of the Suez Canal Company delegation which has been negotiating with the Egyptian Government, has left for Paris to submit a draft agreement to the Board, it was reliably understood to-day. The Egyptian law of 1947 requires that 40 per cent of directors of companies in Egypt must be Egyptian.

FINANCIAL TIMES

MONDAY FEBRUARY 15 1999

THE LEX COLUMN

Metall-bashing

Oh dear. Although mediation lessens the risk of an all-out strike, IG Metall's call for a strike ballot in Baden-Württemberg – after its failure to secure a 6.5 per cent annual wage rise – bodes ill for the euro-zone's largest economy. Meeting such a rich demand from the engineering workers union – when inflation is running at well under 1 per cent – could hardly fail to price more Germans out of work. It is depressing evidence of just how inflexible the German labour market is, that with 4m people already out of work, the union can be so shamelessly immodest. Never has the need for supply-side reforms and further dismantling of the monolithic system of collective bargaining been so obvious.

Even assuming this impasse can be resolved with few work days lost, a settlement of, say, 3.5-4.5 per cent will put the government's 2 per cent economic growth target further out of reach. Since companies will find passing on price increases to consumers difficult in a negligible-inflation environment, margins will bear the brunt of higher unit wage costs, resulting in lower earnings growth and investment. And more jobs will be created overseas rather than in Germany. No wonder the Dax is 7 per cent below where it started the year.

Still, this settlement is unlikely to serve as a benchmark for pay rounds all across the euro-zone, so fears of stagflation look overdone. Wage pressures are not a feature of the area's other leading economies. Higher German unemployment and lower manufacturing profitability, though, seem inevitable. So, while the European Central Bank will doubtless examine the terms of the eventual settlement closely, there seems little reason for further stalling on another rate cut.

Japanese rates

Decisiveness is not a quality generally associated with Japanese monetary policymaking. But Friday's 10 basis point cut in the overnight interest rate seems more than usually footling. It goes only a small way to counteract the recent rise in long-term interest rates, which threatens to choke off the supply of monetary oxygen to Japan's wheezing economy.

The central bank's action seems designed to stave off pressure for more radical action. Politicians at home and, if rumour is to be believed, in the US administration want it to print money as a way out of Japan's deflationary slump. The Bank's governor has described such ideas, which involve it buying existing government bonds and subscribing directly for new bond issues, as "lacking commonsense". Nevertheless, so long as the economy remains gasping for air, the issue is unlikely to go away.

All this continues to worry financial markets. With the Japanese government borrowing on such a vast scale, bond yields seem destined to keep rising. That, in turn, is spooking western bond markets. After all, the Japanese are the world's savers of last resort, and thus helping to finance the US current account deficit. The requirement for them to finance their own government's fiscal deficit too would mean less is available for the US. Of course, if the BoJ did decide to print money, western markets could breathe more easily. But such an inflationary policy would be little comfort for the Japanese bond market.

Volvo

Plan B activated! After the stalling of its approach to fellow Swedish truckmaker Scania, Volvo has lost little time pursuing other options, notably Navistar. For all the haste, shareholders should prefer a link with a US truck manufacturer. Volvo and Scania were not an obvious fit. The two overlapped in products and geography. But the risk was that Investor's chairman Percy Barnevik would drive a mean bargain over the price that achievable synergies could not justify.

That said, Navistar will not come cheap. Along with Renault's Mack unit, it is a valuable player in the consolidating US market. Further, thanks to the sale of its car division, cash-rich Volvo is an anxious buyer at the peak of the truck cycle, a prospect that should make its shareholders wary. Any deal with Navistar or Mack would significantly improve Volvo's sub-scale position in the US market and reduce its over-dependence on northern European markets. But how Volvo can avoid over-paying remains unclear.

National Power

National Power's merger talks with United Utilities were not only bad investor relations – the City needs warming up before strategic U-turns – but they did not even make much sense. National Power had previously, and sensibly, concentrated on exploiting its expertise in power generation. Wanting to own water pipes and electricity wires as well smacks of empire building. The news of the abortive talks, coupled with share price under-performance, last year's profits warning and some bad luck in Pakistan, suggests the status quo may not be tenable.

It is time to dust down those break-up valuations. The international portfolio has a book value of some £1.5bn. Generation assets are in demand, and National Power's UK portfolio could be worth £5.5bn-£6bn. Add the value of lease income from other plant and deduct debt, and the valuation reaches 550p-600p, compared with a recent low of 468½p and Friday's close of 528p.

Arguably, the overseas business is worth more because of its growth potential. Management should consider demerging it. This would leave a UK generation and supply rump, which should be run for cash, with proceeds from government-mandated plant disposals handed back to shareholders. Of course, presiding over a company's dismemberment rarely thrills executives. But if they do nothing, they may be out of a job anyway. Predators will start circling, and National Power is unlikely to find shareholders particularly supportive.

WASHINGTON AIMS FOR CONSTRUCTIVE DIALOGUE DESPITE COOLING IN RELATIONS

US seeks progress toward Chinese entry to WTO

By Tony Walker and Stephen Fidler in Washington

The US and China are intensifying efforts to reach an agreement on Beijing's entry to the World Trade Organisation during a visit to the US in April by Zhu Rongji, China's premier.

The initiative comes as relations between the two countries are at a low point, damaged by disagreements over human rights, China's acquisition of missile technology from the US, and tension over Taiwan.

Agreement on a timetable for Chinese entry to the WTO was "feasible" during the visit, a senior administration official said. However, in a sign of the difficulties the administration may face even if it succeeds in agreeing the terms for Chinese entry, prominent Democrats from the House of Representatives said they would introduce a bill making it contingent on Congressional approval.

The Clinton administration is hoping progress towards China's entry will demonstrate to sceptics the advantages of a constructive dialogue with Beijing.

Representatives Richard Gephardt, the House minority leader, Nancy Pelosi and David Bonior sent a letter last week inviting Congressional colleagues to be co-sponsors of a bill they would introduce next week. The bill would require a joint resolution of the House and the Senate before the US government could support the admission of China to the WTO.

The letter said the US trade deficit with China was expected to grow this year to $70bn. "The accession of China is too important an issue for the Congress to abdicate its constitutional authority over trade matters," it said.

Some lawmakers are concerned that in its effort to get something out of the Zhu visit, the administration may make too many concessions to China. But administration officials deny this will happen.

"We haven't changed one iota from our litmus test of a commercially viable package," said Stuart Eizenstat, undersecretary of state.

The US had told Chinese negotiators time was running out for China's entry, he said. A new trade negotiating round, expected to begin in the autumn at a WTO ministerial meeting in Seattle, the growing protectionist pressures arising out of the rising US, and the US elections next year all limited future opportunity for WTO entry.

Senior US officials, including Madeleine Albright, secretary of state, and Charlene Barshefsky, US trade representative, are expected in China over the next few weeks.

Ms Barshefsky suggested in an interview that agreement was not imminent.

"There are some very large gaps that remain to be filled and an enormous amount of work that remains to be done," she said.

Long Yongtu, China's chief trade negotiator, was in Washington last week and told US officials he had been given increased authority to negotiate. He was told that an agreement on agriculture was particularly important to Congress.

US willing to accept phased progress on open skies by UK

By Michael Skapinker, Aerospace Correspondent

The US is ready to agree to a phased move towards "open skies" with the UK, provided this is accompanied by progress in opening London's Heathrow airport to greater competition.

The US position, which industry observers expect to be put during talks in London this week, is a compromise on Washington's long-standing demand that the UK immediately scrap Bermuda II, the bilateral aviation agreement, in favour of an open skies accord. Bermuda II allows only two US carriers, American and United Airlines, to use Heathrow, the world's busiest international airport.

A move to liberalise UK aviation over several years instead of immediately would be welcomed by British Airways and American. The two carriers decided last year they wanted to develop their alliance over four or five years because of the high price European Union and US regulators were demanding for its immediate introduction.

The EU said BA and American should give up 267 weekly take-off and landing slots at Heathrow and London's Gatwick airports if their alliance was to go ahead. The US demanded an immediate open skies agreement with the UK, with guarantees that other US airlines would be able to fly to Heathrow. BA's decision to push for a gradual introduction of the alliance was also influenced by a fall-off in its business class passengers and a desire to delay increased competition.

This week's talks, which begin on Thursday, are the first since the US walked out of negotiations last October, saying there was no possibility of making progress. The two governments are expected to use the talks to assess whether there is the basis for negotiations on a phased open skies accord. The US has already agreed phased liberalisation agreements with Japan and France. As well as the gradual opening of Heathrow, the US is expected to press for US cargo carriers to be allowed to fly freely from the UK to third countries

However, the US is under pressure to resolve a dispute over access to Gatwick before it moves to negotiations on a new agreement. Continental Airlines wants to start services from Cleveland to Gatwick and US Airways wants to fly from Charlotte, North Carolina. They say they cannot get slots at convenient times.

Eleven US senators, including Jesse Helms, chairman of the Senate foreign relations committee, demanded on Friday that this week's talks be called off because of the Gatwick dispute. In a letter to Rodney Slater, US transportation secretary, the senators said the Gatwick dispute "makes it impossible for us to believe that progress can be made on other unresolved US-UK aviation issues".

[redacted]

CONTENTS

Eritreans celebrate the shooting down of an Ethiopian helicopter during fighting near the Red Sea port of Assab. Report, Page 4 Reuters

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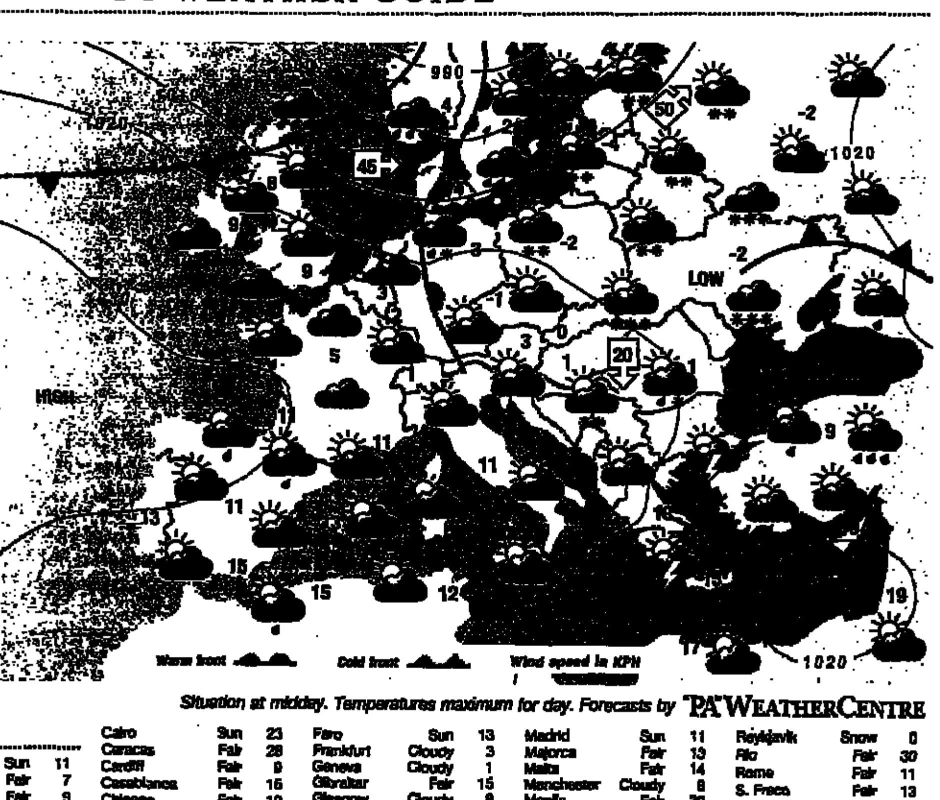
FT WEATHER GUIDE

Europe today

Western Scandinavia will be cloudy with snow but southern Norway will have rain. Germany will be sunny at first but the cloudier conditions over the Low Countries will spread east into northern Germany later with perhaps some light rain. France will have strong sunny spells in the south but cloudier conditions farther north, and a few showers around the Biscay coast. The Mediterranean will be mostly sunny, but northern Spain and the Adriatic coastline will have the occasional shower, with thundery rain in Greece.

Five-day forecast

It will stay unsettled as further bands of rain or snow move eastwards. Scandinavia will have snow, as will Alpine regions. It will be mild enough for rain across France, The Low Countries and much of Germany. The eastern Mediterranean will be unsettled with showers or thunderstorms.



Situation at midday. Temperatures maximum for day. Forecasts by 'PA' WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	25
Accra	Fair	33
Algiers	Fair	12
Amsterdam	Cloudy	4
Athens	Shower	13
Atlanta	Sun	15
B. Aires	Fair	27
B.ham	Fair	8
Bangkok	Fair	33
Barcelona	Sun	11
Beijing	Fair	7
Belfast	Fair	9
Belgrade	Cloudy	2
Berlin	Sleet	3
Bermuda	Shower	17
Bogota	Fair	20
Bombay	Sun	33
Brussels	Shower	3
Budapest	Cloudy	0
C.hagen	Shower	4
Cairo	Sun	23
Caracas	Fair	28
Cardiff	Fair	9
Casablanca	Fair	15
Chicago	Fair	10
Cologne	Sleet	4
Dakar	Fair	23
Dallas	Fair	22
Delhi	Sun	27
Dubai	Fair	24
Dublin	Fair	9
Dubrovnik	Fair	8
Edinburgh	Fair	8
Faro	Sun	13
Frankfurt	Cloudy	3
Geneva	Cloudy	1
Gibraltar	Fair	15
Glasgow	Cloudy	8
Hamburg	Cloudy	2
Helsinki	Snow	-4
Hong Kong	Sun	19
Honolulu	Fair	27
Istanbul	Shower	8
Jakarta	Thunder	29
Jersey	Cloudy	8
Johannesburg	Fair	25
Karachi	Sun	29
Kuwait	Sun	22
L. Angeles	Sun	18
Las Palmas	Fair	18
Lima	Cloudy	28
Lisbon	Fair	12
London	Fair	9
Lux.bourg	Cloudy	2
Lyon	Cloudy	1
Madeira	Cloudy	16
Madrid	Sun	11
Majorca	Fair	13
Malta	Fair	14
Manchester	Cloudy	8
Manila	Fair	32
Melbourne	Thunder	31
Mexico City	Fair	18
Miami	Fair	24
Milan	Fair	8
Montreal	Fair	-1
Moscow	Cloudy	-2
Munich	Cloudy	1
Nairobi	Fair	29
Naples	Fair	8
Nassau	Shower	21
New York	Fair	6
Nice	Fair	11
Nicosia	Shower	19
Oslo	Cloudy	4
Paris	Drzzl	5
Perth	Sun	30
Prague	Cloudy	-1
Rangoon	Sun	35
Reykjavik	Snow	0
Rio	Fair	30
Rome	Fair	11
S. Frsco	Fair	13
Seoul	Fair	5
Singapore	Cloudy	28
Stockholm	Cloudy	2
Strasbourg	Cloudy	2
Sydney	Sun	28
Tangier	Fair	14
Tel Aviv	Fair	19
Tokyo	Fair	8
Toronto	Fair	5
Vancouver	Cloudy	8
Venice	Fair	7
Vienna	Fair	3
Warsaw	Snow	-2
Washington	Fair	8
Wellington	Fair	22
Winnipeg	Fair	-5
Zurich	Cloudy	0

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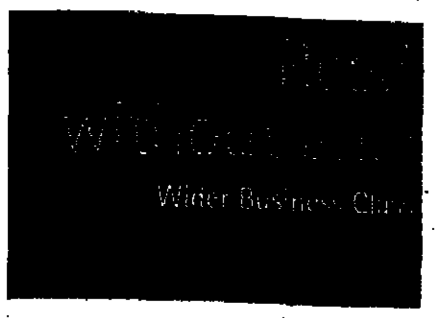


FINANCIAL TIMES
COMPANIES & MARKETS

© THE FINANCIAL TIMES LIMITED 1999 MONDAY FEBRUARY 15 1999 Week 7

INSIDE

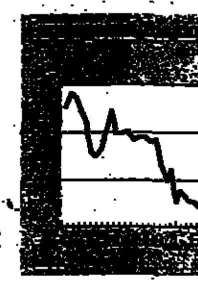
New Holland to expand in the US

New Holland, the world's second biggest manufacturer of tractors, plans to expand in the US by shipping heavy-duty excavators from its newly-acquired plant in Germany. North America accounts for more than a quarter of the market for construction equipment. **Page 17**

Norsk Hydro expected to restructure

Norsk Hydro, Norway's largest listed company, is expected to announce a restructuring plan involving cost cuts and staff reductions, together with a fall in 1998 results for the oil, agriculture and light metals group. **Page 16**

Attention is set to focus on euro



Attention may focus on the prospects for the euro this week, although most analysts expect no interest rate cuts from the European Central Bank at its meeting on Thursday. Meanwhile on Friday, the US announcement of December trade figures is unlikely to turn many heads. Some economists have predicted that the US trade deficit will increase to $16bn from $15.5bn in November. **Currencies, Page 20**

Weaker Real may help pulp exporter

A weaker currency and growing global demand should help Aracruz Celulose, Brazil's leading pulp exporter, reverse a collapse in profits. The group's net income in 1998 fell to US$3.4m. In 1997 net income was US$59.7m, itself half 1996's result. The Real has lost 36 per cent of its value since it began floating. **Page 16**

Thai stocks pull back after tailspin

On Friday, the Thai stock market, which had been into a two-week tailspin that had seen the market fall 14 per cent, shot up 11 per cent. The turnaround came after the passage in the Senate of the first of five important measures to alter the country's bankruptcy and foreclosure laws. **Emerging Market Focus, Page 17**

CIB chief quits over strategy rows

Adel El-Labban, the managing director of Commercial International Bank, Egypt's largest private sector bank, has resigned after rows with executives over how to expand beyond the commercial banking area. The nomination of his successor is expected within a week. **Page 16**

Data may support US bond market

*After today's Presidents Day holiday, the Treasury bond market faces a slew of economic data later in the week. The news may help the financial markets, but any sustained rally seems unlikely given that next week sees Federal Reserve chairman Alan Greenspan's Humphrey Hawkins testimony. **Market Week, Page 18; See Global investor***

Book retailers try a new approach

Competitors have nibbled at the market share and profits of traditional book retailers, who have realised survival in the £1.9bn ($3.11bn) industry depends on a new approach. **Page 14**

FT GUIDE TO THE WEEK

– full listings Page 30

INDONESIA TO NAME BANKS TO BENEFIT
Indonesia's government will today announce the 15 banks that have been nominated by the central bank and finance ministry to benefit from a recapitalisation scheme designed to bail out the country's beleaguered banking sector.
TALKS TO END AIRPORTS ROW
On Wednesday, British and US government negotiators are scheduled to meet for talks in the latest attempt to defuse the ongoing row over flights and airport landing rights between the two countries.
YELTSIN PLAYS HOST TO EU HEADS
A two-day European Union-Russia summit opens on Thursday in Moscow. Boris Yeltsin, president, will hold talks with Gerhard Schröder, the German chancellor, and EU officials.

COMPANIES IN THIS ISSUE

MARKET STATISTICS

London Docklands group considers IPO

Plan could finance completion of once-bankrupt Canary Wharf project

By Norma Cohen, in London

Shareholders of Canary Wharf Group, owner of the 86-acre estate in London's Docklands, are discussing an initial public offering early this year to finance completion of the final two-thirds of a project that could be worth £4bn ($6.6bn) overall.

The completed office complex would have room for 90,000 workers.

The IPO would confirm the stunning reversal in the fortunes of the once-bankrupt project that is now viewed as the second home to London's financial services sector.

Based on the value of existing property, the entire estate could have a market value of about £4bn.

At a meeting last week for members of its proposed investment banking syndicate, Canary Wharf officials outlined plans for completion of the project. Aside from new office space, the plans also call for creation of retail space, parkland, residential housing, leisure facilities and hotels.

Canary Wharf has chosen as its financial advisers a group of banks that proved early supporters of the project.

In addition to Morgan Stanley Dean Witter and Credit Suisse First Boston – *its first* two tenants – the group also includes HSBC, which last year opted to move its headquarters from the City into a new 1.1m sq ft headquarters at Canary Wharf.

Also in the group is Bankers Trust International. Its chairman, Lord Levene, is the man widely credited with having brought crucial tenants into the site when its future was in doubt in the early 1990s. Cazenove is broker to the potential IPO.

Immediately before the IPO, Canary Wharf is expected to make a special dividend payment of about £40m to £45m to the company's shareholders.

The original shareholders include CNA Financial Corporation, Franklin Mutual Series Fund, affiliates of Republic New York Corporation and companies associated with Prince Al-Waleed bin Talal and Paul Reichmann, the original developer of Canary Wharf.

Canary Wharf will also make a £90m pre-payment to London *Underground Ltd in respect of* future obligations to contribute towards construction and operation of the Jubilee Line Extension.

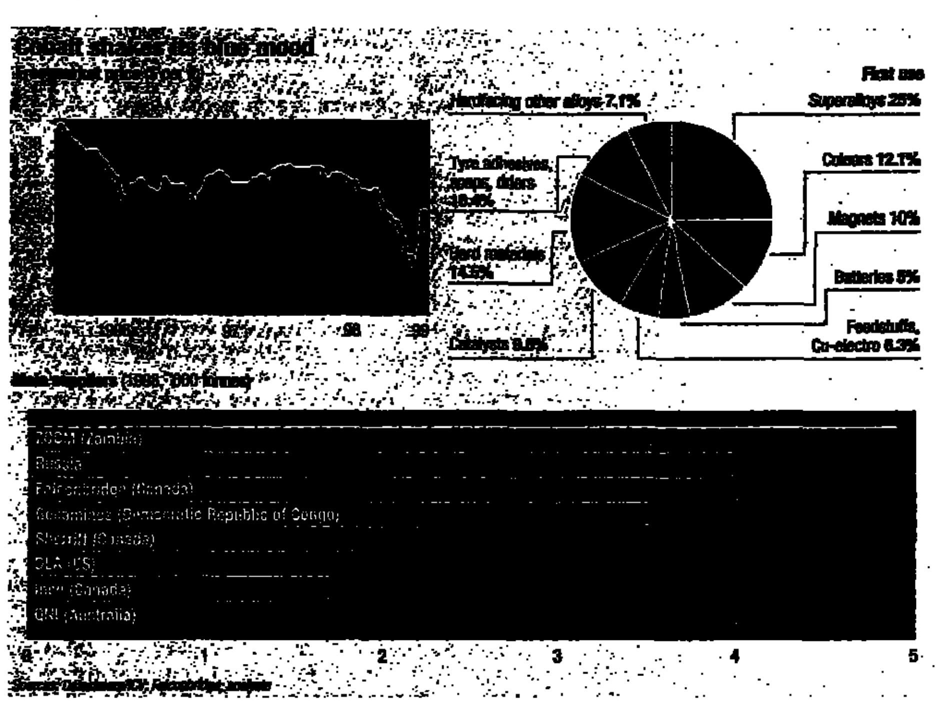
The size of the IPO has not yet been decided. However, according to the company's annual report and accounts for the year ended June 30 1998, completed investment properties were valued at £1.34bn. Land under or for development is valued at book cost of £105.2m.

The group reported gross profits for the year of £27m, up from £21.2m the year before. However, Canary Wharf Hold*ings recorded a pre-tax loss for* the year of £69m, up from a loss of £11.4m as of June 30, 1997. The 1998 loss includes an exceptional £27.1m charge relating to pre-payment of debt, while 1997 figures were inflated by an exceptional £18m gain on the sale of land and completed property.

Cobalt is a hot metal again

MRG's gamble on high prices in a volatile market has paid off

By Paul Solman



Users and traders of cobalt could be forgiven for feeling they have missed something. Just weeks ago, with the price of the metal languishing at a nine-year low of $6 a pound, *many in the industry seemed* certain that prices would stay low.

Now the price is $18, and a third of the world's supply appears to be under the control of one trader, London-based MRG Cobalt Sales.

Traders in minor metals are used to volatile prices. The metals are used for a wide range of industrial applications such as super alloys and specialty chemicals. When a new application is found, demand rises and prices jump; when it is replaced by another metal, the price falls again.

The cash market, where buyers and sellers deal with each other rather than through a regulated exchange, also means prices react quickly to changes in supply and demand.

Cadmium underwent a remarkable surge during the 1980s, jumping from 50 cents a pound in 1987 to more than $8 a year later, supported by the invention of nickel-cadmium (NiCd) rechargeable batteries. As NiCd batteries have been superseded, cadmium's use has returned to specialised industrial applications and the price has dropped to around 25 cents.

Cobalt, too, has seen high prices before.

"It was especially volatile in 1978, when political upheavals in Zaire and Zambia – which then provided 60-70 per cent of the world's cobalt – meant supplies were uncertain," said a trader. "Prices came down after the opening up of the Soviet region, when Russia began exporting its cobalt."

As recently as June last year, cobalt was above $20 a pound. Then producers, traders and consumers started to believe the market was oversupplied and prices began to fall.

"It's a relatively small market," said an analyst. "Annual supply is about 30,000 tonnes, and late last year there was a perception that there was about 2,000 tonnes more than was needed."

The Asian crisis also played a part. Falling demand from industry meant cobalt producers and consumers were reluctant to hold stocks: supplies were run down and buying delayed.

MRG began building its stocks even as the price was falling.

A deal with ZCCM of Zambia last October gave it the right to market the mining company's cobalt across much of the world. ZCCM is one of the biggest suppliers, producing 5,000 tonnes of cobalt last year.

Last month MRG completed a similar deal with Gecamines of the Democratic Republic of Congo, supplier of 3,500 tonnes of cobalt last year. The trader also acquired what it said were "substantial quantities" of cobalt from the company.

It was then that alarm bells began to ring.

Large producers had sold cobalt. They could barely satisfy customers. Russian exports were delayed when shipping routes froze. As base metals prices faltered, Norilsk, the mining giant that produces cobalt as a by-product of nickel, announced output cuts. Rumours said other plants would close.

"While most people had persuaded themselves cobalt would stay cheap, MRG had been positioning itself with a series of shrewd deals," said a trader. "We woke up one morning to find they had most of the deliverable metal."

The only readily available source of free market cobalt is the US Department of Logistics. It sells a limited amount of cold war stock by tender.

The January sale was heavily oversubscribed, with MRG outbidding its rivals. The next sale will be on February 23. Traders warn that instead of relaxing the squeeze on cobalt supplies, frantic bidding could push prices higher.

BMW decision on 'downmarket' move imminent

By Haig Simonian, Motor Industry Correspondent

BMW will take a decision this month on developing a new small car below its existing range in a move that could decisively affect Rover and safeguard its Longbridge plant *in the UK.*

Developing a 2 Series below BMW's lowest priced 3 Series range could form the basis for a shared "platform" – or engineering architecture – that could also be used for new cars to replace Rover's 200 and 400 models.

The future of the 200 and 400 replacements, and indirectly Longbridge, where they are built, has hung in the balance because of doubts within BMW over whether Rover could sell enough to warrant the massive investment in a new platform of its own.

BMW has traditionally refused to move below the 3 Series for fear of damaging its brand image and margins. Any moves downmarket have been limited to developing a shortened 3 Series "Compact" to attract new buyers.

However, a decision on whether to move downmarket and develop a shared platform with Rover is expected soon.

The difficult choices had been postponed because of the deep rivalry between Bernd Pischetsrieder, BMW's former chairman, and Wolfgang Reitzle, his rival and de facto deputy, both of whom were removed this month.

The decision will now fall to Joachim Milberg, Mr Pischetsrieder's replacement, and BMW's largely reconstituted board. BMW chiefs acknowledge strategic differences between Mr Pischetsrieder and Mr Reitzle, which also pervaded lower management and had almost paralysed decision-making. While Mr Pischetsrieder favoured maintaining Rover as a full range brand, *Mr Reitzle wanted to focus on* profitable niches such as Land Rover and MG.

Developing a 2 Series, using front wheel drive rather than BMW's traditional rear wheel drive, has been discussed intermittently for years.

However, the success of VW's Audi executive cars subsidiary – and particularly of BMW's arch-rival Mercedes-Benz – in going downmarket is believed to have influenced BMW's latest thinking.

Sales of Mercedes-Benz's unconventional new A Class reached about 150,000 last year, in spite of safety concerns, without apparently damaging the prestige brand.

BMW's hesitation over replacing Rover's 200 and 400 stemmed from boardroom differences over whether such vehicles could be profitable. Strong competition in the mid-sized car market has led analysts to believe that only high volume platforms of at least 500,000 cars annually could be profitable. Rover's 200 and 400 replacements alone would not generate the sales required.

Sharing a platform with a 2 Series would allow Rover to gain the required economies of scale. The use of a shared platform would mean the new BMW could even be built at Longbridge on the same production lines as the Rovers.

RICHARD WATERS
GLOBAL INVESTOR

Inflation alarm bells ring

Today being the annual President's Day holiday in the US, the incumbent in the White House would be forgiven for allowing himself a moment's smugness.

The traumas of an *impeachment trial are over.* The US economy is again defying the pundits by refusing to take a time-out after two years of near 4 per cent growth. What could go wrong now?

One distant alarm bell, perhaps, is ringing in the bond markets. The past couple of weeks have been truly bloody for anyone who owns Treasury bonds. As prices have fallen, the *yield on 30-year securities* has headed back towards 5.5 per cent in a hurry. These are the sort of yields that prevailed before last autumn's international financial crisis.

There are two messages here. One is that the international investors whose appetite for Treasuries has fed the bull market in bonds and, indirectly, stocks – and who will be increasingly needed to finance a burgeoning trade deficit – are getting harder to attract.

The other is that the balance in the domestic economy between inflation and deflation has tipped again. Wall Street seems to have made the same miscalculation at the start of this year as it has in each of the past four: the economy is showing little sign of cooling off after the red-hot fourth quarter of 1998.

Either way, it could be bad news for stocks. And what's bad for stocks these days is bad for America. It's not higher earnings that have sustained the bull market for the past two years, but lower long-term interest rates – to be specific, a decline in the yield on the long bond from 7 per *cent to 4.7 per cent at its low* point last autumn. That has led to the expansion in the price/earnings multiple that has been the feature of this late-cycle jump in equity prices. Until now, the economic crisis spreading out from Asia has fed this process. The US has become a big importer of price deflation and foreign capital looking for a safe home.

The latest twist in the Japanese crisis is different. The black hole that is the Japanese economy looks as big as ever, but a liquidity trap has sent bond yields soaring (compared with last autumn, anyway).

"There will be an easier monetary policy over time – the only question is how much foreplay we have to go through to get there," says David Hale, chief economist at Zurich Financial Services in Chicago. It is difficult to predict how this political process will unfold, though. And until it does, bond yields in the 2-2.5 per cent range could continue to suck Japanese capital out of the Treasury bond market.

European bond yields are also facing a period of unexpected firmness. Political considerations rule here, too. The new European Central Bank is becoming caught in the sort of political bind it must have feared. Labour unrest in Germany, a German finance minister threatening fiscal easing if interest rates *do not fall soon* – it all adds up to the sort of show of strength that will stop the ECB from easing soon. All of this points *to higher yields in bond* markets worldwide, at least in the short term.

Domestic news has also played a big part in the US bond market's February tumble. It wasn't long ago that a recession this year seemed a distinct possibility. More recently, economic growth had seemed set to fall back into the 2-2.5 per cent range widely seen as sustainable over the *longer term. Now* the first half of 1999 looks like being another record-breaker.

In theory, higher bond yields should help apply the brakes. The overheated housing market should slow, as should the wave of mortgage refinancings that has helped support consumer spending.

These "shoulds" have been around a long while, though. As Neal Soss, US economist at Credit Suisse First Boston, points out, the retreat in bond yields may only mark the passing of the crisis mentality that prevailed during last autumn's upheaval. Leaving aside the lower short-term interest rates, these are the financial conditions that prevailed last summer.

Until now, an unlikely surge in productivity late in the economic cycle *has kept the* lid on US inflation. But the back-up in yields is a reminder that this may not carry on indefinitely.

ELECTRICITY GENERATOR BELIEVES SHARE PRICE UNDERVALUES ITS INTERNATIONAL BUSINESS

National Power may float overseas interests

Keith Henry: looking to boost share price Trevor Humphries

By Andrew Taylor, Utilities Correspondent

National Power, Britain's second largest electricity generator, is considering floating its international power interests in a bid to boost its flagging stock market performance.

The company last week suffered a setback in its bid to increase its UK electricity supply interests when United Utilities pulled out of merger talks which would have created a multi-utility with a combined market capitalisation of more than £10bn.

Shareholder concerns about National Power's prospects are thought to have increased following the revelation that it was considering linking with United Utilities power distribution and water interests in north-west England as well as buying its regional electricity supply business.

The generator previously had said it did not want to run a power distribution business but was only interested in buying supply operations which would give its power stations direct access to customers. Ian Byatt, the water industry regulator, is also threatening to impose a big price cut on North West Water, owned by United.

A rise in National Power's share price since the announcement that merger talks had failed indicates that the market was not convinced that a nil-premium acquisition followed by a break up of United's water and distribution interests would have released the necessary value.

National Power's share price has fallen from 694p in January last year to 538p at Friday's close as the pricing policy and market share of large UK generators have come under fire from the industry regulator.

Keith Henry, chief executive, believes that the current share price undervalues its growing international power business. The group has been looking at a number of options to boost its value including hiving off its growing overseas power business as a prelude to a possible flotation or partial share sale.

The overseas business has a book value of £1.5bn compared with the group's current market capitalisation of about £6.5bn.

National Power has committed about £2bn to international interests, acquiring stakes in 21,000 MW of overseas capacity, of which its share is equivalent to about 7,000MW. This compares with 16,000MW owned by National in the UK. Only AES energy group of the US has a larger international business.

The fall in National Powers share price is considered by some analysts to have made it vulnerable to a possible takeover. Several US groups, including Duke Energy, are believed to have been considering a bid.

National meanwhile remains keen to expand its UK electricity supply interests following its agreed takeover of Midlands supply operations at the end of last year. It has offered to sell its Drax coal fired power station in Yorkshire in a bid to satisfy requests from the regulator that it reduce its market share.

Small takeover activity on increase

By Virginia Marsh

Last year's fall in valuations of many smaller quoted UK companies has led to a surge in takeover activity and bid premiums are rising, according to Merrill Lynch.

In a report published today, the US investment bank says that 15 per cent of companies in the FTSE SmallCap index in September have been or are in bid or merger situations.

The increase in corporate activity has been behind the sector's strong performance in recent weeks: in the past month the FTSE SmallCap index has outperformed the FTSE All-Share by 10 per cent after lagging it by 21 per cent last year.

The bank expects the bid activity to continue. This is both because, it says, smaller companies are still trading at significant discounts to larger ones, and because institutional interest in smaller companies has waned.

Institutional investors have therefore been putting pressure on small companies to merge or participate in takeovers as a way of gaining critical mass.

"Some traditionally more benign institutions have clearly become more pro-active in their attitude to underperforming companies," says Tim Steer, small companies' analyst at Merrill Lynch.

"We still believe that in the future there will be more focus on the larger, smaller companies. But for the moment it is a game of 'spot the bid' in smaller companies and we should continue to see outperformance."

Despite the recent improvement, the FTSE SmallCap was still trading at a 37 per cent discount to the market based on 1998 earnings forecasts at the beginning of this month.

The bank says the engineering and support services sectors have been among the most active.

It predicts further consolidation in these areas as well as in the brewing/restaurant, paper and packaging, property and leisure sectors.

The bank also found a growing gap between market valuations of smaller companies and the prices trade buyers are prepared to pay for them.

The average bid premium for deals under £400m rose from 33 per cent in the final quarter of 1997 to 43 per cent in the same period last year. According to the bank, the average has now risen to 52 per cent.

The increased activity, as well as a drop in the number of flotations, has led to a decline in the number of listed smaller companies.

Dixons may float internet business

By Christopher Price

Dixons, the UK's biggest electrical retailer, is open to the idea of floating its Freeserve free internet service. John Clare, chief executive, said a Freeserve flotation "may become an issue which we will have think about in due course."

Valuations on internet shares have reached dizzy heights, particularly in the US. Compaq, the US computer company, recently announced it was spinning off its Alta Vista internet search engine group on Nasdaq in order to take advantage of the huge demand for internet stocks.

Freeserve has been a phenomenal success for Dixons, attracting more than 1m registered users in the five months since launch and making it the UK's biggest internet service provider (ISP). Its growth is such that Dixons has brought forward the break-even date from the end of 1999 to April.

Mr Clare said: "We clearly have a retail group which is doing well and have investors who want to invest in that. But these are not the same investors who might want to go into a higher risk internet stock."

He made clear that Freeserve's value to Dixons operations remained uppermost in considerations about its future. Freeserve's popularity has forced other ISPs, most of which charge a monthly subscription, to reexamine their business models. Last week, British Telecommunications announced its first free service, as did Tesco.

Mark Danby, general manager of Freeserve, said the strategy was to continue building up the customer base and to promote user loyalty. This was being achieved through the addition of services, such as entertainment, news, finahce and games. It is launching an integrated web site and store concept for the computer games market.

Insurers amass 'billions' in excess capital

By Andrew Bolger, Insurance Correspondent

General insurance companies are sitting on billions of pounds of excess capital that should be redeployed or returned to shareholders, according to research by AT Kearney, the management consultants.

Its analysis of the results of nearly 1,000 US property and casualty insurance companies claims the sector is overcapitalised by as much as $270bn-$360bn, and continental European and UK general insurers aresimilar.

Although there has been a deterioration of the underlying profitability, excluding investment returns, of US general insurers since the late 1970s, AT Kearney says the sector's ratio of incurred losses and loss-adjusted expenses to net premiums has remained constant.

However, the ratio of their loss reserves and investment surplus to premiums has more than doubled.

Stefan Spohr, a consultant, said: "Growth in capital in conjunction with earnings deterioration suggests that extraordinarily large catastrophe losses are expected or that results are consistently under-reported."

Richard Hines, a vice-president with AT Kearney, said: "People always talk about the need to be ready for a major catastrophe, but even huge earthquakes in California or Japan could not justify this build-up in capital. Individual insurance companies do accept there is a problem, but it's always the other company that is overcapitalised."

He also points to the role of the US-based rating agencies such as AM Best, Moody's and Standard & Poors, and the cautious attitude of insurance regulators, who operate at state, rather than federal, level.

Mr Spohr said: "In some states regulators are elected, so politics can intervene." The analysis suggests several factors are driving this capital growth cycle, locking insurers' performance into a downward spiral.

AT Kearney says insurers can break out of this cycle by determining risk-adjusted return and capital requirements. So far, the model has been applied to one large US reinsurer in an 18-month project which Mr Hines said was "very, very successful". The consultancy is now talking to a number of property and casualty insurers in the US, UK and Europe.

As well as helping managers with capital allocation, the analysis also supports the consolidation trend already evident in the sector.

Indonesia problems delay UPM-Kymmene project

By Nicholas George in Stockholm

UPM-Kymmene, one of Europe's leading forestry groups, says political and economic turmoil in Indonesia has delayed its paper and pulp joint venture in the country. It is now renegotiating the project with its partner Asia Pacific Resources International (April).

Juha Niemelä, UPM-Kymmene's chief executive, said April would not be able to complete the building of two pulp and paper mills in Sumatra by the end of 1999.

"We are renegotiating and at the least we need a new time schedule. How to proceed in Indonesia is now an open question," he said.

Last week StoraEnso said it was postponing its $1.5bn pulp joint venture in Brazil due to problems in financing the project.

Under the terms of the original deal UPM-Kymmene had been offered a 30 per cent share of afine paper company relying on three new mills built by April, two of them in Sumatra, and one in Changshu, near Shanghai, in China.

The agreement on the Chinese mill has been renegotiated and the mill will start production in March; however April has struggled to raise financing for the second mill in Sumatra.

Mr Niemelä's comments came as UPM-Kymmene reported a strong rise in pretax profits in the 12 months to December, up from FM5.57bn to FM8.54bn ($1bn to $1.6bn).

Excluding net capital gains, mainly from the sale of Nokia shares, pre-tax profits rose to FM7.5bn.

Earnings per share were FM22.69 (FM15.55) with a proposed dividend raised from FM5.50 to FM6.50.

Text 100 considers move to main market from Ofex

By Dan Bilefsky

Text 100, a public relations consultancy , is likely to move from Ofex to London's main market this year.

Text hopes to raise either up to £3m through a placing or at least £500,000 to cover flotation costs. If successful it will increase the proportion of free floating shares from about 12 to 25 per cent.

The directors are likely to provide a proportion of the shares with the balance coming from a stock issue.

The company reported a 9 per cent increase in pre-tax profits to £1.35m (£1.2m) on turnover up 46 per cent to £16m (£11m) in the year to July 31.

A dividend of 1.4p (1.2p), up 20 per cent, is payable from flat earnings per share of 3.9.

Text, an internationalconsultancy serving the technology industry, listed on Ofex in March 1997 at 30p. The shares have more than doubled to 69¼p, and the company said it was ready to reach out to a broader group of investors.

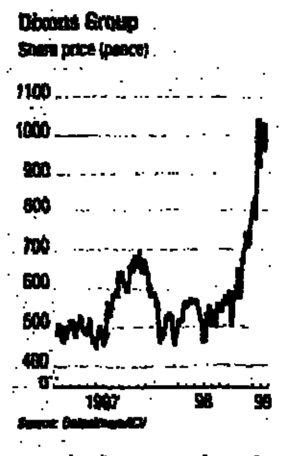
Tom Lewis, chairman, said: "We hope the move will encourage greater liquidity in the stock and raise a small war chest to finance organic growth."

Last year Text opened eight new offices in North America, Asia and Europe, and in this financial year has openedsubsidiaries in London, Tokyo and Singapore, bringing the total to 24. Its strategy is to become a global IT consultancy.

The float is being sponsored by ARM corporate finance.

COMMENT

Dixons/Freeserve



Should Dixons float Freeserve? The electrical retailer's free internet service has certainly proved a spectacular success, garnering more than 1m subscribers since its launch last September and verging on an early break-even. But since Dixons' shares have outperformed the market by more than 50 per cent in the same period, there may be little value now left to be released. Valuing each subscriber at, say, £1,000 would make Freeserve worth about £1bn or some 235p per share. Yet Dixons' shares have already risen by more than twice that amount since the Freeserve launch.

Still, pent-up demand for internet stocks could fetch a higher value per subcriber. In any case, it makes sense to allow Dixons' shareholders to determine the extent of their internet exposure, especially as the synergies sacrificed in a complete demerger, largely in marketing costs and in-store software distribution, do not seem too good to miss. Roll on the UK's first large pure-play internet stock.

UK government statistics

A casual observer might think that after all the damage UK government statisticians have supposedly done to economic policy – notably in last autumn's earnings fiasco – they deserve a good dressing down and should have any existing independence withdrawn. In fact, the opposite is true: the anoraks need to be given more freedom to look after the statistics, not less. Politicians have meddled with statistics so much over the years, it is time they laid off. When in opposition, the Labour party recognised this. Its manifesto included a commitment to create an independent statistical service. And soon after the election, they duly launched a Green Paper as part of the consultation.

But since then the "independence trail" has gone quiet and the government response to the consultation exercise is now six months overdue. Could it be that once in government, ministers have realised, as most do, that statistics are more conveniently kept under officials' control after all? The idea of a government statistician supervised by a new watchdog Statistical Commissioner would provide a far better framework for assessing priorities, quality and resources. This might be a difficult year for the Office of National Statistics, but it should enter the next century as a more efficient and self-confident organisation.

NEWS DIGEST

OIL

Strain on YPF and Repsol integration

Signs of strain are emerging between YPF, the Argentine privatised energy concern, and Repsol, the Spanish oil company which paid $2.01bn for a near 15 per cent stake in YPF last month.

Roberto Monti, YPF chairman and chief executive, appears to be resisting Repsol's desire for a rapid integration of the two companies' activities, according to industry analysts. YPF has made clear it is willing to look at a number of joint venture activities with Repsol, but not a merger. At the time of the sale the Spanish described the deal as "the first step" to integrate the two companies. However, Repsol emphasised it would only consider launching a friendly bid for YPF. The purchase, Repsol's biggest single investment, was intended to lift it out of the minor league of international oil companies.

YPF on Friday revealed a 42.5 per cent fall in fourth-quarter net earnings to $115m, hit by continued weakness in international oil prices. Net earnings for 1998 fell to $580m ($877m), while operating profits declined 30 per cent to $1.15bn. Eanings per share for the year dropped to 164 cents (248 cents). **Ken Warn in Buenos Aires**

MEDIA

Pearson set to sell financial unit

Pearson, owner of the Financial Times, is expected this week to sell a financial data operation to Primark, the US group, for £15m-£20m. The deal involves the research products arm of its Extel subsidiary.

The Extel operation, which provides data on about 15,000 companies, will add to Primark's existing company database operations. These include Worldscope, which focuses on US companies and Dafsa, a French operation.

The agreement will leave within the Financial Times Group Extel's Exshare business, which provides end-of-day security prices. This fits with Interactive Data Corporation, which provides similar information in the US. About 300 staff are expected to transfer from the FT Group to Primark under the agreement. Primark will acquire the name as well as the assets, and is entering a long-term agreement to supply financial data to the FT.

Extel's research products division, founded on Extel cards giving company data, is estimated to have been losing £3m a year on turnover of about £12m. Pearson has been seeking a buyer for the operation for several months.

Extel was acquired by Pearson in 1993 for £74m, as a way of expanding its financial publishing operations. However, it is now concentrating on expending the Financial Times itself and developing its FT.com internet site. **John Gapper**

RECRUITMENT

Select expands in Finland

Select Appointments, the specialist recruitment group, has acquired a Finnish office staffing company, continuing its expansion into the Nordic region.

The group has also paid £4.5m for a controlling interest in Beresford Blake Thomas, a supplier of personnel to the contract engineering and medical and social care sectors.

The acquisitions fit in with Select's ambitions to grow in specialist areas and to expand in continental Europe. Select has acquired a 70 per cent interest in Office Help of Finland for an initial consideration of FM6m ($1.1m). Last year Office Help had sales of FM7.4m, up 89 per cent.

Select has bought an 85 per cent stake in Beresford, which has four UK offices. Last year Beresford increased sales 63 per cent to £14.7m. **Michael Peel**

ELECTRONIC CARDS

Mondex sells Japan franchise

Mondex International, the electronic cash card provider, has sold its franchise for Japan to a consortium made up of Sanwa Bank, MasterCard International and JCB, the Japanese credit card company. The electronic cards, which are charged with money before use, will initially be launched in a small pilot scheme.

Reading between the covers all is not what it seems

Michelle Joubert turns over the pages to reveal that times are changing rapidly in the world of book retailing

Every year, London's Charing Cross Road draws thousands of literature lovers to its book shops, which have lined the street for nearly a century. Love of books, not cold business principles, seems to keep the stores alive.

Shoppers should savour this atmosphere. Despite more competition from new groups, the internet and supermarkets, many UK book stores have clung to traditional methods.

But strategies in this £1.9bn industry are changing. Relative to the total, consumers are spending less on literature. Book retailers are allowed to discount more. Stores, with profitability threatened, realise survival depends on a new approach.

It's not all bad news for book retailers. But investors should take note: listed retailers, including WH Smith, the UK's largest, and supermarkets such as Tesco and Asda, are changing fundamentally.

The wake-up call to retailers clinging to the old ways first came from predatory competitors, nibbling at market share and profits. Analysts say until recently WH Smith was a case in point.

Shares of WH Smith climbed recently on news that the group would join the internet retail wave and, says an analyst, investors' conviction that management has reacted tocompetition.

"The group was desperately under-managed," he says. "So it was vulnerable to competition, particularly from supermarkets. But that's changing. Management is now focusing on the chain's range and layout. Operations are improving."

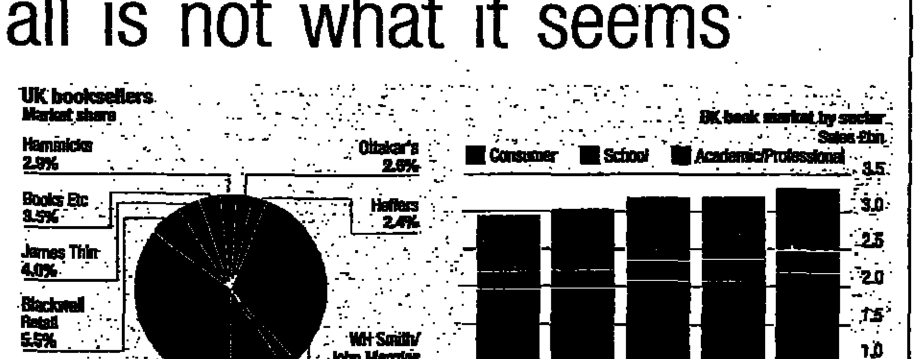
WH Smith's range is wider than that of supermarkets, which benefit from economies of scale. But, says the analyst, WH Smith's high street stores target a similar market and are most likely to be hurt by expanding book stores in supermarkets.

Book sales are fairly new to supermarkets, which according to consultants Market Tracking International have about 6 per cent of the total market. Their book divisions are still too small to influence their share prices. Tesco says since Christmas like-for-like sales of books are up 40 per cent on the previous period.

Discounting, allowed since the net book agreement (NBA) ended in 1995, is an important part of the supermarket's book strategy and probably the biggest weapon of all large retailers. Supermarkets say the effect of NBA was to stop book retailers from modernising operations by carrying out promotions which generate traffic through stores.

This, of course, hurts independent stores which the Booksellers Association says have declined in numbers. Analysts say these, mostly unlisted, are the worst affected. Book shop numbers have fallen slowly since 1995, independents faster than chains.

Verdict, the retail consultants, forecasts that sales volume growth in books, newsagents and stationers will be one of the slowest of all consumer sectors between 1998 and 2003 – only half a per cent a year. That is higher, the consultants estimate, than the 0.1 per cent growth for the decade to 1998.



With discounting now allowed and the book sector tough, some companies have chosen to merge with others to improve economies of scale. Dillons, the retail chain, has acquired former rival Waterstones for £300m from WH Smith. Books Etc was bought by US-listed chain Borders.

These groups, knowing that books are impulse buys, aim to win favour from shoppers through store entertainment facilities and stocking their vast stores with books to cater for all.

The companies reckon this is how they will gain market share. But, says an analyst: "I query the economies of superstores, which are labour-intensive and traditionally slow to turn stock, unless there are very few. Soon there could be too many of these stores."

Analysts differ over whether these large shops, will be as affected as small shops with limited range by burgeoning internet groups like US-based Amazon.com. But profitability of all book shops is threatened. Verdict forecasts that by 2003, book sales via this medium would reach 18 per cent of all books sold in the UK.

Concerns about the effect of internet sales on book retailers includes those with internet divisions such as WH Smith and US-based stores Barnes & Noble and Borders. Share prices of these US-based competitors, now in the UK, are dropping due to factors including worries about internet retail and lower consumer spending. The exceptions are shares of internet-based retailers such as Amazon, as yet unprofitable.

Book shops on Charing Cross Road will probably survive, boosted by tourist interest. With chains most easily able to cope with new industry conditions, not all independent stores will be as fortunate. For investors, it will be worth watching how listed retailers adapt to the industry's metamorphosis.

NEWS DIGEST

PULP AND PAPER

Aracruz Celulose may gain from weaker Real

A weaker currency and growing international demand should help Brazil's leading pulp exporter reverse a collapse in profits last year. Net income at Aracruz Celulose in 1998 fell to US$3.4m, hit by low prices, higher financial charges and extraordinary items. In 1997 net income was US$59.7m, half 1996's result.

However, many of the conditions that contributed to last year's results have eased following the devaluation of the Real. Aracruz exports nearly all its output and will benefit from a more competitive exchange rate. The Real has lost 36 per cent of its value since it began floating. Production costs in Brazil, a big world supplier of paper and pulp, are now similar to those of Indonesia, which has enjoyed some of the lowest costs in the world after it devalued its currency, the rupiah, in 1997. **John Barham, São Paulo**

AIR TRANSPORT

Norwegian airline in the red

Braathens, Norway's largest domestic airline, reported a 1998 loss and warned that continued overcapacity in its domestic market would lead to a further loss in the first quarter. The poor results followed a profits warning last week, in which the company said larger than expected problems from the replacement of Norway's international airport at Fornebu in October by the new Gardermoen airport, together with flight restrictions during the start-up of a Scandinavian air traffic control system, would wipe out 1998 profits. **Valeria Sköld, Oslo**

TOBACCO PRODUCTS

Tabacalera beats expectations

Tabacalera, the Spanish cigarette and cigar group, beat market expectations by announcing an increase of almost 36 per cent in attributable net profit to Pta23.51bn (€141.3m, $158.8m) last year, its first as a private-sector company. Provisional figures show 19 per cent growth in gross sales to Pta1,360bn. After sales taxes and tobacconists' commissions, sales rose 12 per cent to Pta412bn.

Tabacalera said the profit boost, which followed a jump of 48 per cent in 1997, reflected higher unit margins and increased sales volume on the Spanish market – due in part to a clampdown on contraband trade. The company, in which the Spanish government sold its remaining 52 per cent holding on the stock market in April last year, is preparing to float its hived-off logistics arm. **David White, Madrid**

BANKING

Bank Sarasin lifts dividend

Bank Sarasin, the Basle-based private bank whose shares more than doubled last year, increased its pre-tax profits by 15 per cent to SFr110.8m ($78.3m) in 1998. Net commission income rose 22 per cent to SFr202m and total operating income rose 20 per cent to SFr278m. Operating expenses increased by 24 per cent to SFr147m, because of an expansion in the workforce to 493.

The rise in the group's pre-tax profits was less than that of Julius Baer, the market leader among Swiss private banks. However, the one-third rise in Sarasin's dividend, to SFr60 per registered share, was in line with the increase in Baer's dividend. Sarasin has disclosed for the first time its funds under management, which increased from SFr23.3bn to SFr28bn in 1998. Shareholder equity rose to SFr414m at end-1998, equal to 14.7 per cent of the group's equity. **William Hall, Zurich**

CHEMICALS

Dyno Industrier in the black

Dyno Industrier, the Norwegian chemicals group, returned to profit last year despite settling six civil actions over alleged price fixing in the US, an issue that has cost the company more than NKr800m ($105m) over recent years. Dag Mejdell, Dyno Industrier chief executive, said the company bounced back to a net profit of NKr156m last year from a loss of NKr62m because of continued improvement in its core businesses of explosives and chemicals. **Valeria Sköld**

SPORTS GOODS

Finnish group returns to profit

Amer, the Finnish sports goods manufacturer that owns the Wilson and Atomic brands, has returned to profit following a sharp increase in ski demand and improved margins in its golfing and tennis products. The company, which has endured two years of heavy losses, reported pre-tax profits of FM32m ($6m) for 1998 compared with a loss of FM53m in the previous year, even though sales fell 5.5 per cent to FM4.43bn. Amer, which also said it would seek authorisation for a share buy-back, said the improved profits reflected the benefits of restructuring in its Oxygen in-line skate business and growing market share for Atomic and Wilson. **Tim Burt, Stockholm**

CORRECTIONS

San Miguel

The report of the company's 1998 full-year results in the Saturday 13/Sunday 14 February edition of the Financial Times should have stated that net profits rose eight-fold from 2.96bn pesos in 1997 to 24.4bn pesos ($626m) thanks to heavy one-off gains from asset sales, and not the 88 per cent rise attributed.

Philips

The world market share of Philips in mobile phones using the GSM standard is estimated at 5.3 per cent, not 16 per cent as reported in the Financial Times last Friday.

Indian software group to list in US

By Krishna Guha in Bombay

Infosys Technologies, the software company, is to become the first Indian company to list in the US. The company has filed offer documents with the Securities and Exchange Commission and will begin its roadshow in a matter of weeks.

Infosys will offer 1.8m American depositary shares, each representing half an underlying share, with an indicative price of $27.88, which will be listed on Nasdaq. The company expects to raise about $50m to $60m.

The issue is a sign of the global ambitions of India's booming software services industry – which will post export revenues of more than $2.6bn for the current financial year – and a milestone in the internationalisation of India's economy.

Nandan Nilekani, managing director of Infosys, said the company would use the receipts from the issue to invest in operations in India and abroad, and to build up its brand equity, a traditional area of weakness for Indian companies.

Infosys intends to use dollar-denominated stock options based on its US listed securities to attract and retain high-flying executives outside India. The listing will also create a global currency for acquisition, Mr Nilekani added.

Infosys had hoped to list in the US last year. However, the company postponed its efforts in November because of turmoil among US information technology stocks. Now, executives expect to capitalise on renewed global interest in technology.

As part of the preparations for the listing, Mr Nilekani has taken on the posts of president, managing director and chief operating officer. N.R. Narayana Murthy remains chairman and chief executive.

The issue will be underwritten by NationsBanc Montgomery Securities, BancBoston Robertson Stephens, B.T. Alex Brown and Thomas Weisel Partners.

Analysts expect other Indian software companies to follow Infosys and list in the US, possibly this year.

Egyptian bank chief resigns

By Mark Huband in Cairo

The managing director of Commercial International Bank, Egypt's largest private sector bank, has resigned after conflicts over strategy.

Adel El-Labban, 41, managing director of CIB since 1990, left after disagreements with bank executives over how best to expand CIB's activities beyond the commercial banking area, in which it now plays a leading role in Egypt.

Mr El-Labban, widely regarded as one of the most skilled and innovative bankers in Egypt, is believed to have declined a position as a non-executive director of CIB. The nomination of his successor and a restructuring of senior management responsibilities is expected to be announced within a week.

The conflict in part centred on the degree of liberty the companies within the CIB group should have. Mahmoud Abdel Aziz, CIB chairman, had attempted to loosen Mr El-Labban's influence on Commercial International Investment Company (CIIC), CIB's investment bank, as well as Intercapital Securities, its brokerage arm.

Some analysts have raised concerns that the past year has seen growing uncertainty over CIB's development strategy, despite it having recorded a E£127m ($37m) profit in 1998.

CONVERTIBLE BONDS PENT-UP DEMAND AND FOREIGN INVESTOR INTEREST DRIVE PACE AT START OF YEAR

France leads the European march

By Vincent Boland

France looks like regaining its place as one of Europe's most active convertible bond markets thanks to a pace-setting series of transactions in the first six weeks of 1999.

If the pace was maintained throughout the year, it would set a record level of global convertible/exchangeable bond issuance.

Since January 1, names such as Havas, Axa, Artémis, Moulinex, Bouygues, Promodès and Vivendi have tapped strong demand among French and international investors for high-grade convertible and exchangeable bonds – and for euro-denominated investments – raising a combined €5bn ($5.8bn) out of total European issuance of €5.8bn up to the end of last week.

National Grid and Telewest have maintained UK interest in the market, but observers note that other traditionally strong markets such as Switzerland and the Netherlands have been more muted. This could change, however, in what analysts believe will be a good year for convertible issuance – to follow good years in 1997 and 1998.

Jean-François Mazaud, head of equity linked origination at SG Global Equities, believes there are some factors peculiar to the French market that have made it so active so early in the year – January is often the quietest month for any type of new equity issue to come to the market.

The first is pent-up business after a relatively disappointing 1998, when only FFr25bn (€3.8bn, $4.3bn) of convertible bonds were issued, of which half came from a jumbo issue from France Telecom. Second, the product is constantly evolving – the ability of French issuers to sell bonds that can be converted into either new or existing shares makes them more attractive for issuers.

Third, the nominal size of the French market has been shrinking in the past two years because of a high level of redemptions. Taking advantage of that window, several of the recent French issues have been "opportunistic" – launched without a specific use of proceeds other than to refinance existing debt.

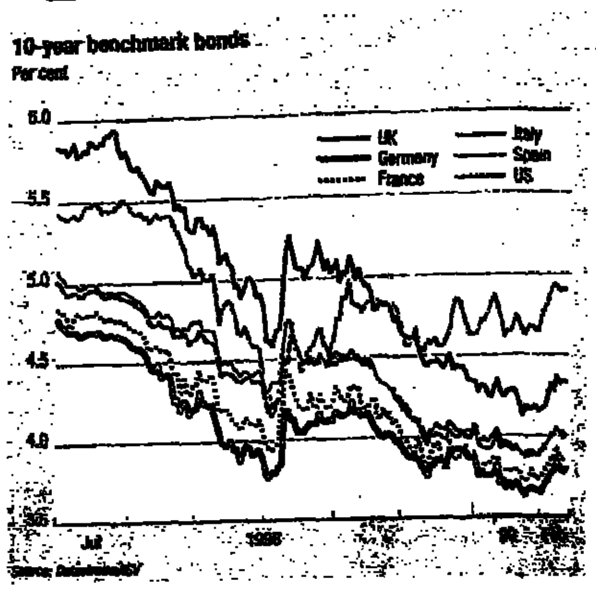
Others have had a dedicated use of proceeds – such as to help pay for acquisitions. Financial services group Axa's purchase of Guardian Royal Exchange was the reason for its €1.5bn bond issue earlier this month.

Fourth, and most revealing, is the ability of French issuers to tap a growing base of international investors for their convertible bonds, similar to international appetite for French equities.

"We have been placing only about 40 per cent of issues this year with French investors, compared with 60 per cent a year ago," Mr Mazaud says.

French convertibles have also been outperforming their European peers in recent months, although performance in the secondary market so far this year has been disappointing – again mirroring the ups and downs of equity markets – despite the high levels of demand for convertible bonds.

Warburg Dillon Read's European convertible index has risen 29.8 per cent since January 1 1998, but only 1.5 per cent so far this year. Its France index has gained 36.7 per cent and 0.5 per cent in the same periods.



There is no sign, however, that European issuance is beginning to slow down. "New issuance has roughly doubled in Europe every year in the past few years, and the trend for 1999 is in motion now," says Katalin Tischhauser, head of convertibles research at Warburg.

Of course, the convertible bond market is not an exclusively European phenomenon. The US has traditionally been a very active market and global issuance was about $60bn in 1998, bringing the nominal size of the global market to about $450bn. So far this year the US and Japan/Asia have seen issuance of about $3bn each.

The US market differs from its European counterpart in one key respect: the majority of US issuers are small or sub-investment grade companies. In Europe, issuance tends to come predominantly from highly rated, blue chip issuers. That has helped convertibles and exchangeables to become a distinct asset class among European investors.

The arrival of the euro is expected to give the European market another boost – eliminating currency concerns that have been an important consideration for investors in the sector. "If there is one product that has been helped by the euro, it is convertible bonds," observes Antoine Schwartz, head of European equity capital markets at Goldman Sachs.

Bankers say the German market could be the next to see a flood of activity. German issuers were active last year in the exchangeable market as companies such as Allianz, the insurance giant, launched bonds that could be exchanged for shares in other German entities in which they are shareholders. If there are more to come from those sources, the European convertibles market looks like hogging the limelight throughout 1999.

Kamaz defaults on bank debt

By Kevin Done, East Europe Correspondent

Kamaz, the Russian truckmaker and one of the country's largest industrial companies, has defaulted on its debts including a $100m loan from the European Bank for Reconstruction and Development.

The company's management has resisted pressure from creditors, including the Russian government and the government of Tatarstan, to restructure and is now facing the threat of legal action from the EBRD, the only secured creditor of any size.

The EBRD refused to say yesterday whether it had begun legal proceedings, but confirmed it was taking "appropriate actions to recover its investments".

Kamaz, which at its peak produced more than 125,000 trucks a year and employed more than 130,000 people, has failed to service its debts to the EBRD for more than a year. Following previous debt for equity swaps, the truckmaker is effectively controlled by the state government of Tatarstan.

The EBRD, *one of the largest foreign investors in Russia*, is seeking to use the case to show that creditor rights can be exercised in Russia. It is still trying to *negotiate a restructuring* agreement with Kamaz and to install a new management, but the truckmaker's failure to honour previous deadlines has forced the bank to consider a variety of legal actions.

Kamaz, one of the industrial monoliths of the former Soviet Union, has accumulated considerable tax arrears and has suffered persistent cash-flow problems.

It has also defaulted on loans to the Russian state-owned Vneshtorgbank, with which the EBRD is seeking to co-ordinate its drive to secure agreement on restructuring the group.

The EBRD is seeking to persuade Kamaz to sell off unused equipment and pay around $25m of its $110m obligations to the bank. The bank believes the company should be broken up into a number of independent units, some of which could be profitable.

Norsk Hydro to restructure

By Valeria Sköld, Oslo

Norsk Hydro, Norway's largest listed company, is expected to announce today a broad restructuring plan involving cost cuts and staff reductions, together with a fall in 1998 results for the Norwegian oil, agriculture and light metals company.

The restructuring follows similar moves by competing oil companies as low prices and consolidation lead to redundancies, and as Norsk Hydro struggles with low fertiliser prices.

Norsk Hydro was downgraded last month by J.P. Morgan, because of lower aluminium prices, to market underperformer from market performer.

Norsk Hydro is expected to report a 43 per cent fall in pre-tax profits to NKr5.9bn ($774m) from NKr10.3bn on sales of NKr94.8bn compared to NKr96.2bn a year earlier.

The company earlier reported a 64 per cent *fall* in third-quarter profits to NKr468m due to turbulence *in world markets and lower* fertiliser and oil prices.

Visa USA vows to retain logo

By John Authers in New York

The board of Visa USA, the largest US credit card association, has voted to continue its brand marketing campaign, despite the resignation of two executives from Citigroup, its largest member, over the issue.

Meeting in Pebble Beach, California, the remaining 11 members of Visa USA's board, drawn mostly from other large banks, agreed to continue with its rule that the Visa logo must appear on the front of all cards.

This rule had been attacked by Citigroup, and has led to the possibility that it will move its Visa business to MasterCard, the rival card association.

William Stewart, Visa USA's executive vice-president, said: "We hate to lose a large customer. But it isn't the end of the world. We obviously have been talking to Citibank and we aren't prepared to change our business model."

He added that the question of the logo would be on the agenda for the board's next meeting in May.

John Reed, Citigroup's co-chief executive, and Robert Lipp, head of its US retail operations, resigned earlier this month after Mr Reed attacked the prominence Visa gave to its own brand, saying it was amazing banks were prepared to live with a "communal brand".

Visa is jointly owned by its member banks and funding for its extensive brand advertising and sports sponsorship campaign comes ultimately from its members.

Citigroup is in talks with MasterCard, which has about half Visa's market share. Both organisations denied last week an agreement had been reached. The discussions centre on Citigroup switching its Visa cards to MasterCard, in return for marketing concessions, such as removing the MasterCard logo from the front of the card.

Citigroup may also be attempting to lower the fees it pays for using the MasterCard system, although Visa officials said its fees account for about 0.09 per cent of the revenues the bank gains from the cards.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, February 12, 1999. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	EURO €	YEN (X 100)
Afghanistan	(Afghani)	7739.65	4750.00	5357.05	4155.55
Albania	(Lek)	227.629	139.700	157.554	122.217
Algeria	(Dinar)	102.583	62.9458	70.9897	55.0676
Andorra	(French Fr)	9.4770	5.8163	6.5596	5.0884
	(Sp Peseta)	240.386	147.532	166.386	129.068
Angola	(Readj Kwanza)	418894.3	257128.0	289969.0	224940.0
Antigua	(E Carib $)	4.3994	2.7000	3.0451	2.3621
Argentina	(Peso)	1.6288	0.9995	1.1272	0.8744
Armenia	(Dram)	829.9840	509.380	574.479	445.632
Aruba	(Florin)	2.9166	1.7900	2.0188	1.5660
Australia	(Aus $)	2.5209	1.5471	1.7449	1.3535
Austria	(Schilling)	19.8803	12.2010	13.7603	10.6741
Azerbaijan	(Manat)	6436.130	3950.00	4454.81	3455.67
Azores	(Port Escudo)	289.640	177.764	200.482	155.517
Bahamas	(Bahama $)	1.6294	1	1.1278	0.8749
Bahrain	(Dinar)	0.6143	0.3770	0.4252	0.3298
Balearic Is	(Sp Peseta)	240.388	147.532	166.386	129.066
Bangladesh	(Taka)	79.0280	48.5000	54.6984	42.4303
Barbados	(Barb $)	3.2588	2.0000	2.2556	1.7497
Belarus	(Rouble)	358487.9o	220000.0	248120.0	192467.5
Belgium	(Belg Fr)	58.2815	35.7687	40.3399	31.2923
Belize	(B $)	3.2588	2.0000	2.2556	1.7497
Benin	(CFA Fr)	947.700	581.630	655.957	508.838
Bermuda	(Bermudian $)	1.6294	1	1.1278	0.8749
Bhutan	(Ngultrum)	69.1701	42.4513	47.8765	37.1388
Bolivia	(Boliviano)	9.2559	5.6800	6.4059	4.9692
Botswana	(Pula)	7.4743	4.5872	5.1734	4.0131
Brazil	(Real)	3.1040r	1.9050	2.1485	1.6666
Brunei	(Brunei $)	2.7553	1.6910	1.9071	1.4793
Bulgaria	(Lev)	2816.83	1729.75	1949.86	1512.42
Burkina Faso	(CFA Fr)	947.700	581.630	655.957	508.838
Burma	(Kyat)	10.1866	6.2517	7.0507	5.4693
Burundi	(Burundi Fr)	840.898	516.057	582.012	451.473
Cambodia	(Riel)	6159.13	3780.00	4263.08	3306.94
Cameroon	(CFA Fr)	947.700	581.630	655.957	508.836
Canada	(Canadian $)	2.4336	1.4937	1.6846	1.3068
Canary Is	(Sp Peseta)	240.388	147.532	166.386	129.068
Cp. Verde	(CV Escudo)	154.321	94.7100	106.814	82.8573
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		£ STG	US $	EURO €	YEN (X 100)
Greece	(Drachma)	465.093	285.430	321.897	249.700
Greenland	(Danish Krone)	10.7417	6.5924	7.4350	5.7674
Grenada	(E Carib $)	4.3994	2.7000	3.0451	2.3621
Guadeloupe	(French Fr)	9.4770	5.8163	6.5596	5.0884
Guam	(US $)	1.6294	1	1.1278	0.8749
Guatemala	(Quetzal)	11.2821	6.9241	7.8086	6.0576
Guinea	(Fr)	2115.75	1298.50	1464.45	1136.00
Guinea-Bissau	(CFA Fr)	947.700	581.630	655.957	508.838
Guyana	(Guyanese $)	255.816	157.000	177.065	137.352
Haiti	(Gourde)	27.3739	16.8000	18.9470	14.6975
Honduras	(Lempira)	22.7872	13.9850	15.7497	12.2348
Hong Kong	(HK $)	12.6275	7.7498	8.7402	6.7799
Hungary	(Forint)	360.586	221.300	249.582	193.605
Iceland	(Icelandic Krona)	115.101	70.6400	79.6678	61.7995
India	(Indian Rupee)	69.1701	42.4513	47.8765	37.1388
Indonesia	(Rupiah)	14175.8	8700.00	9811.87	7611.22
Iran	(Rial)	4888.20a	3000.00	3383.40	2624.58
Iraq	(Iraqi Dinar)(?)	0.5066r	0.3109	0.3506	0.2720
Irish Rep	(Punt)	1.1379	0.6983	0.7875	0.6109
Israel	(Shekel)	6.6162	4.0605	4.5795	3.5523
Italy	(Lira)	2797.45	1716.88	1936.27	1502.00
Jamaica	(Jamaican $)	61.4284	37.7000	42.5181	32.9819
Japan	(Yen)	186.249	114.308	128.913	100
Jordan	(Jordanian Dinar)	1.1626	0.7135	0.8047	0.6242
Kazakhstan	(Tenge)	139.556	85.6500	96.5951	74.9311
Kenya	(Kenya Shilling)	100.754	61.8350	69.7378	54.0965
Kiribati	(Australian $)	2.5209	1.5471	1.7449	1.3535
Korea North	(Won)	3.5847	2.2000	2.4812	1.9247
Korea South	(Won)	1915.44	1175.55	1325.79	1028.43
Kuwait	(Kuwaiti Dinar)	0.4935	0.3029	0.3416	0.2649
Laos	(New Kip)	6843.48	4200.00	4736.76	3674.36
Latvia	(Lats)	0.9354	0.5741	0.6474	0.5022
Lebanon	(Lebanese £)	2457.14	1508.00	1700.72	1319.28
Lesotho	(Maluti)	9.9394	6.1000	6.8796	5.3366
Liberia	(Liberian $)	1.6294	1	1.1278	0.8749
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		£ STG	US $	EURO €	YEN (X 100)
Papua New Guinea	(Kina)	3.6251	2.2248	2.5091	1.9463
Paraguay	(Guarani)	4741.56	2910.00	3281.90	2545.82
Peru	(New Sol)	5.5359	3.3975	3.8317	2.9723
Philippines	(Peso)	62.7330	38.5000	43.4204	33.6819
Pitcairn Is	(£ Sterling)	1	0.6137	0.6922	0.5369
	(NZ $)	2.9658	1.8202	2.0528	1.5924
Poland	(Zloty)	6.1413	3.7690	4.2507	3.2973
Portugal	(Escudo)	289.645	177.764	200.482	155.517
Puerto Rico	(US $)	1.6294	1	1.1278	0.8749
Qatar	(Riyal)	5.9473	3.6500	4.1165	3.1932
Reunion Is. de la	(FFr)	9.4770	5.8163	6.5596	5.0884
Romania	(Leu)	19838.0	12175.0	13731.0	10651.3
Russia	(Rouble)	37.6636m	23.1150	26.0691	20.2222
Rwanda	(Fr)	522.434	320.630	361.607	280.504
St Christopher	(E Carib $)	4.3994	2.7000	3.0451	2.3621
St Helena	(£)	1	0.6137	0.6922	0.5369
St Lucia	(E Carib $)	4.3994	2.7000	3.0451	2.3621
St Pierre & Miquelon	(FFr)	9.4770	5.8163	6.5596	5.0884
St Vincent	(E Carib $)	4.3994	2.7000	3.0451	2.3621
San Marino	(Italian Lira)	2797.45	1716.86	1936.27	1502.00
Sao Tome	(Dobra)	3894.27	2390.00	2695.44	2090.90
Saudi Arabia	(Riyal)	6.1111	3.7505	4.2298	3.2811
Senegal	(CFA Fr)	947.700	581.630	655.957	508.838
Seychelles	(Rupee)	8.8314	5.4200	6.1043	4.7417
Sierra Leone	(Leone)	2658.74	1630.58	1838.98	1426.46
Singapore	($)	2.7553	1.6910	1.9071	1.4793
Slovakia	(Koruna)	62.0680	38.0925	42.9605	33.3253
Slovenia	(Tolar)	275.988	169.331	190.972	148.140
Solomon Is	($)	7.6537	4.6830	5.4068	4.2188
Somali Rep	(Shilling)	4269.03	2620.00	2954.84	2292.11
South Africa	(Rand)	9.9394	6.1000	6.8796	5.3366
Spain	(Peseta)	240.388	147.532	166.386	129.068
Spanish Ports in N Africa	(Sp Peseta)	240.388	147.532	166.386	129.068
Sri Lanka	(Rupee)	112.563	69.0850	77.9154	60.4479
Sudan Rep	(Dinar)	319.382	196.000	221.049	171.471
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CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Quest Diagnostics (US)	Unit of SKB (UK/US)	Healthcare	$1.03bn	Restructuring
Flowserve (US)	Weir Group (UK)	Engineering	$990m	Approach rebuffed
Express Scripts (US)	Unit of SKB (UK/US)	Healthcare	$700m	Restructuring
Warburg Pincus/General Atlantic Partners (US)	Rebus (UK)	Business srvcs	$284m	Agreed takeover
PowerGen (UK)	LG Energy (S Korea)	Power	$213m	49.9% stake
Kalon (UK)	Polifarb CW (Poland)	Paints	$81m	60% achieved
Sibelco (Belgium)	Watts Blake Bearne (UK)	Minerals	$60m	Bid for minority
Emap (UK)	Automotive Group (US)	Publishing	$35m	Building Petersen
Macro 4 (UK)	Insync Software (US)	Computer srvcs	$30m	Deferred element
Morgan Stanley DW (US)	AB Asesores (Spain)	Financial srvcs	n/a	Overseas build-up

Bulgaria sets deadline for BTC sell-off bids

By Kevin Done and Kerin Hope in Sofia

The Bulgarian government has set a deadline of March 18 for final bids for a majority stake in BTC, the state-owned telecommunications utility, in the country's biggest privatisation deal.

Four west European telecoms operators – Deutsche Telekom, KPN of the Netherlands, Telefónica of Spain and OTE of Greece – are in negotiations with the government to determine the final terms and conditions for the acquisition, which is expected to value BTC at between $1bn and $1.5bn.

The sale of a 51 per cent stake in BTC is the flagship deal in Bulgaria's belated privatisation programme, and a crucial condition for securing further financial support from the International Monetary Fund and the World Bank. It will be one of the largest privatisation deals in east Europe this year.

Antoni Slavinski, president of Bulgaria's Committee of Posts and Telecommunications, said the government had "no ambition to keep a big stake" in BTC. A further 10 per cent will be sold to employees later this year and an initial public offering of shares is planned to take place in two to three years in agreement with the strategic investor. Deutsche Bank is advising the government.

The government is offering potential investors a licence to establish a second GSM mobile telephone network in Bulgaria in competition with Mobiltel, the existing GSM operator owned by private Bulgarian and Russian investors, Eastern Market Telecom, Bul Sym and First Financial.

BTC owns a 39 per cent stake in Mobikom, the previous generation analogue mobile phone operator in which Cable and Wireless of the UK holds a 49 per cent stake, and which is keen to gain an interest in the new GSM licence.

The government had ruled out offering the second GSM licence under a separate international tender, and was determined that it would form part of the BTC privatisation deal, said Mr Slavinski.

Compared with other countries in central and east Europe, Bulgaria has a high level of telephone lines installed – almost 35 lines for every 100 inhabitants – but the quality of services is poor.

Only about 15 per cent of local exchanges have been digitalised, and party lines still account for around half the network. Revenues per line are among the lowest in Europe.

The strategic investor in BTC would be granted a monopoly on fixed-line local, long-distance and international voice telephony services until the end of 2002, when services would be liberalised, Mr Slavinski said.

Telecom Italia pay TV talks off

By James Blitz in Rome

Telecom Italia is breaking off negotiations with Rupert Murdoch's News Corp Europe over the sale of Stream, its pay TV subsidiary, ending two months of negotiations over a possible deal.

In a further indication that Mr Murdoch could be looking at alternative ways of pursuing his ambitions in the European pay TV business, Telecom Italia issued a short statement on Saturday that it "confirms the interruption of talks with News Corp on the sale of Stream".

News Corp Europe immediately said that "the interruption of negotiations on Stream by Telecom Italia does not alter News Corp Europe's interest in Italy".

News Corp Europe said it was still talking to TF1, the French terrestrial television station controlled by the Bouygues industrial group, about ways of getting a foothold in the Italian market.

"We are evaluating with TF1 the points on which Telecom Italia decided to interrupt the negotiations to see whether there is scope either to reopen them or, if there is not, to find other possible ways of entering the Italian market," News Corp Europe said.

Mr Murdoch had been seeking to acquire an 80 per cent stake in Stream since Christmas, hoping that this would be a basis on which to broadcast Italian soccer on pay TV.

However, his bid to buy Stream appears to have run aground on the basis of new Italian government anti-trust rules, which were rushed through last month amid fears he would monopolise the market in broadcasting soccer.

The Italian government ruled that no single broadcaster could be allowed control of more than 60 per cent of the rights to broadcast Italian Serie A soccer.

The break-off of talks also fuels speculation that Mr Murdoch could consider joining forces with Canal Plus, the French pay TV group, whose Telepiù subsidiary already has a foothold in the Italian market.

According to some accounts, Canal Plus is pressing News Corp to abandon plans to challenge Telepiù in Italy and join forces to pursue ambitions elsewhere in Europe.

However, any co-operation involving a combination of Canal Plus and BSkyB, the pay TV company founded by News Corp, would face enormous regulatory hurdles.

ABN Amro boosts funds 27%

By Jane Martinson, Investment Correspondent

Demand for pan-European equity products helped ABN Amro asset management, the fund management arm of the Dutch-owned bank, increase assets under management by 27 per cent last year.

Almost all of the increase, from Fl 155bn (€70.3bn, US$79.8bn) to Fl 197bn, was the result of new business and rising stock markets.

The most successful business area was ABN's European equity funds, which attracted Fl 3.4bn last year in the run-up to the launch of the single currency.

Jaap Fieret, chief executive of the division, said the increase in these funds resulted from good performance and the "transfer of euroland assets".

The euro is expected to lead to significant amounts of portfolio restructuring as domestic investors shift money into other markets in the euro-zone.

At the same time, ABN's European funds performed well last year. The Trans Europe Fund outperformed the MSCI Europe benchmark by 16.5 percentage points in the year while the AAF Europe Equity Fund outperformed by 10.3 points.

The group is keen to expand in the US market but Mr Fieret said yesterday: "It is extremely unlikely that we will make a bid for an independent US fund manager, largely because of questions of culture and price."

There were other gaps in the group's business, including the UK pension fund market, but Mr Fieret said he was happy with the existing strategy of organic growth.

ABN bought Banco Real, the Brazilian bank, last year, which added Fl6bn to funds under management.

The group's banking parent will publish its results later this month.

US buy lifts Atlas Copco

By Nicholas George in Stockholm

Atlas Copco, the Swedish engineering group, reported a 14 per cent rise in operating profits, boosted by its recently acquired US rental division, but warned that it expected profits to fall in the first half of 1999 as demand weakened in Europe and Latin America.

The company saw operating profits rise to SKr4.35bn ($552m) in the 12 months to December from SKr3.81bn a year earlier as sales rose to SKr33.74bn from SKr30.03bn.

Prime Service, the US rental equipment company Atlas Copco acquired in 1997, accounted for more than half the rise in operating profit. Prime Service's sales increased by 29 per cent in 1998 with internal growth accounting for half of this.

Giulio Mazzalupi, chief executive, said Prime Service would continue to expand. "We will continue to take part in the consolidation of the American industry at the same time that we grow organically," he said, pointing to the fact that Prime Service was currently present in only 20 states in the US.

Although demand for equipment rental is seen as continuing to expand, overall demand for the company's products in the first half of 1999 is expected to be lower than in 1998.

The company said the outlook for demand in Europe was somewhat weaker, with a sharp decline expected in Latin America. In the US, demand is expected to remain at its present level.

"Prices for our products are definitely not going to rise. For some products and in some areas prices will go backwards," Mr Mazzalupi said.

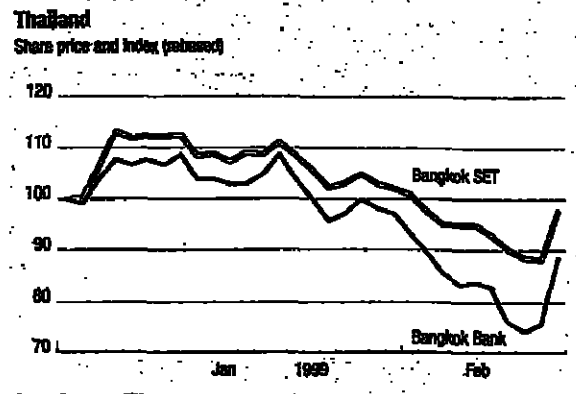
Earnings per share rose to SKr12.44 from SKr12.03 with the board proposing a dividend of SKr4.50 compared with SKr4.25 a year earlier.

EMERGING MARKETS ACCOUNTING AT FINANCIAL INSTITUTIONS HAS LED TO CONFUSION

Banks lead Thai downturn

By Ted Bardacke in Bangkok

Thailand
Share price and index (rebased)



Source: Datastream/ICV

What a difference a day makes. Until Friday, the Thai stock market was well into a two-week tailspin that had seen the market fall 14 per cent. And then, in one day the market shot up 11 per cent and is now less than 20 points off its level of a fortnight ago.

The immediate reason for the startling turnround was the passage on Friday in the politically conservative Senate of the first of five important measures designed to fundamentally alter the country's bankruptcy and foreclosure laws.

Until now, these laws have been extremely biased towards delinquent debtors, which has held up a much needed component of Thailand's economic recovery – debt restructuring.

Debt restructuring would help reduce the huge levels of non-performing debt at Thai financial institutions, lowering the country's overall bank recapitalisation bill and giving banks the confidence to begin lending once again.

With banks accounting for 33 per cent of Thailand's market capitalisation, the new laws are crucial to the direction of the overall market.

"If the other bills pass as easily as this one did then we're off to the races, if we're not already running," said one breathless trader.

Yet it would still be wise to consider the reasons for the market's recent tailspin, also led by the banks. The fall coincided with a painful and expensive learning process among investors, analysts, bankers and regulators about the minutiae of Thai bank accounting.

Two weeks ago Bangkok Bank president Chatsiri Sophonpanich told an investor conference that his bank's non-performing loans (NPLs) were 48 per cent of total lending.

Although many financial institutions in Thailand have even worse NPL figures, this number came as a shock; Bangkok Bank is considered one of the better banks in the country and most estimates had NPLs at just over 40 per cent.

In the following days, Bangkok Bank shares fell more than 20 per cent and the bank saw $1.3bn in market capitalisation wiped out. This was not a good thing for a bank that needs to raise more capital, or for other bank shares which were also dragged down.

In the struggle to understand the number, it took Bangkok Bank 10 days to explain that what it meant when it said "non-performing loans" was actually classified assets.

There are several differences, primarily the fact that a good loan to a bad customer (one who has other loans that haven't paid interest for three months) is considered classified, but still performing.

In addition, some banks have more stringent definitions of classified assets than the central bank itself. Bank of Asia, for example, uses US GAAP because it is a consolidated subsidiary of Dutch bank ABN Amro. At the end of the year its NPLs were 39.3 per cent of all loans; its classified loans stood at 54 per cent.

Furthermore, it is classified assets for which the central bank requires banks to set aside hefty provisions.

"What was really hammering the bank shares was provisioning needs going forward," says Andrew Maule, Thai banking analyst at ABN Amro Asia Securities Trading. "If Bangkok Bank is applying a more rigorous standard then the implications for the rest, for the system, are bad."

However, Bangkok Bank should have been rewarded by the market for keeping a more realistic set of books, rather than taking the beating it got. After all, at the end of the third quarter of 1998, the difference between NPLs and classified assets provided for by Thai Farmers Bank, the darling of the market, was a hefty 28 per cent.

Part of the blame lies with Bangkok Bank itself. At a press briefing last Wednesday, it became clear that the chairman of the bank's executive board and former finance minister Kosit Panpiemras didn't know the difference between an NPL and a classified asset.

It took a friendly investment banker in the audience to pull interested reporters aside to argue Bangkok Bank's case.

At some level, the fact that Mr Kosit didn't understand his own bank's accounting policy is a good sign, one that shows the bank is indeed so conservative that it truly doesn't distinguish between a classified loan and an NPL.

Yet it is unfortunate that after a 10-day double-digit fall in the bank's shares, it was still out of touch with the confusion in the market and unable to rectify it.

"I wish I knew," said Mr Kosit shrugging his shoulders when asked why the market was so focused on questions surrounding the 48 per cent number.

This sort of admission from a senior Thai banker is as important to keep in mind when the market is going up as it is when it is going down.

Indonesia raises Freeport royalties

By Sander Thoenes in Jakarta

Freeport McMoRan, the US mining company that operates the world's third largest copper mine, has agreed to raise royalty payments in return for approval of its expansion plan.

Kuntoro Mangkusubroto, Indonesia's mining minister, said royalties would be doubled on copper, and tripled for gold and silver.

This should ease a running dispute between Freeport, which had been close to former president Suharto, and members of the new government who long resented the company. Freeport declined to comment.

The royalties agreement should pave the way for a boost in capacity to 300,000 tonnes of ore per day, from the current level of approximately 210,000 tonnes, although Mr Kuntoro has cited concerns about the environmental impact of expansion.

Higher royalties will put more pressure on Freeport's cash-flow, already hit by a drop in prices, but the impact will be limited as they are indexed to metal prices, which have dropped steadily in recent years.

Royalty payments – for gold and silver included – amounted to 3.6 per cent of production costs for copper or 2.9 per cent of gross profits per pound in the third quarter of 1998. But the price per pound of copper has since dropped further, from 74 cents in the third quarter to 66 cents by year-end.

As Freeport Indonesia, the mining subsidiary, sold 1.42bn pounds of copper last year, royalty payments should have totalled about $17m but full results have yet to be released. Freeport earlier expected taxes, royalties and dividend to Indonesia to cost some $227.5m in 1998. Net income for 1998 was $118.3m, down from $208.5m in 1997.

Matav to raise penetration

By Robert Wright in Budapest

Matav, the Hungarian telecoms operator, plans to increase telephone penetration in Hungary in response to forecasts of a slowdown in the company's recent sharp earnings growth.

It announced the plans as it announced net earnings of Ft58.3bn ($263m) for 1998, a 62 per cent rise on last year's Ft36bn. The earnings, at the bottom end of analysts' expectations, were struck on sales up 25 per cent to Ft318bn. The growth figures in Hungarian forint terms were flattered by Hungary's relatively high inflation, which ran at just over 10 per cent for the year.

Elek Straub, Matav's chairman and chief executive, said the company planned by 2000 to drive telephone penetration in Hungary up to above 40 lines per 100 people, from the present 35.4 per cent.

The company also underlined what it said was the success of a campaign to generate demand for telephone lines, which brought 125,000 orders.

The moves seemed to be aimed at calming fears over an expected slowdown in the company's profit and revenue growth as previous inefficiencies were removed, staff numbers reduced and unsatisfied demand for lines was met.

The planned increase in market penetration itself represents a marked slowdown from the increase of 12 lines per 100 people recorded over 1998.

However, Matav continued to improve profit margins over the year. Operating profit was Ft96.1bn, up from Ft74.1bn in 1997, to give a profit margin of 30.2 per cent against 29.2 per cent.

Pre-tax profit margins improved more sharply as two companies in which Matav holds a minority stake moved from contributing Ft238m of losses last year to profits of Ft302m.

One analyst said it had always been obvious Matav's profit growth would slow during the present year. He forecast net earnings of Ft81bn, putting the company on a forward price/earnings ratio of 17.2 times, almost twice the average Budapest stock exchange level.

However, when compared with the average European telecommunications company's P/E of 24.9 times, the company was much cheaper, with far greater growth potential.

Matav's figures came at the end of a heavy results week on the Budapest stock exchange. Among others were disappointing figures from Hungary's two biggest chemical companies, TVK and BorsodChem.

TVK saw pre-tax profits fall 21 per cent to Ft14.7bn, from Ft18.6m last year, with the company blaming the fall on a 20 per cent slump in prices for its main products brought on by the fall in oil prices.

BorsodChem also disappointed analysts, despite raising pre-tax profits to Ft10.1bn from Ft8.54bn last year.

New Holland plans US expansion

By Peter Marsh

New Holland, the world's second biggest manufacturer of tractors, is aiming to expand in the US by shipping heavy-duty excavators there from a newly acquired plant in Germany.

North America accounts for more than 25 per cent of the $75bn world market for construction equipment. Over the next five years New Holland intends to increase by 50 per cent the production of construction machines from a factory in Berlin bought as part of its purchase late last year of Orenstein & Koppel, a leading German machinery maker, with a large proportion of these destined for North America.

New Holland, based in London, is majority-owned by Fiat, the Italian automotive group, and listed on the New York Stock Exchange.

The venture illustrates the increasing globalisation of the construction machine industry, in which leading participants have in the past few years stepped up efforts to set up plants or marketing operations outside their main regions.

Industry leaders include Caterpillar and Case of the US, Japan's Komatsu, Volvo of Sweden, Switzerland's Liebherr, and JCB of the UK.

New Holland wants to reduce its dependence on farm equipment, which last year accounted for 60 per cent of its sales of $5.7bn.

Although the company is a strong number two in the industry to Deere, the US machinery supplier, profits among most large agricultural equipment makers are expected to be depressed for the next two years because of a slump in worldwide farming investment.

Umberto Quadrino, New Holland's chief executive, said that up to now New Holland had had only a marginal impact in the heavy construction machine business in North America.

This is because its main excavator subsidiary – a joint venture with Hitachi, the Japanese machinery maker – is precluded from operating in both North and South America under the terms of a separate venture that Hitachi has with Deere.

However, New Holland's new O&K subsidiary will have no such restriction. It bought O&K for a nominal sum – believed to be less than DM100m (€51m, $60m) – from Krupp, the German engineering group merging with Thyssen.

O&K made a loss on sales of DM800m last year, but Mr Quadrino believes it is capable of generating profits relatively quickly under the new ownership.

Last year, it produced 2,000 construction machines, most of them excavators, from its Berlin plant, which employs some 2,000 people. Mr Quadrino said planned production would increase to 3,000 a year by 2004.

New Holland's increased activities in North America will bring it into increased competition not only with the Deere/Hitachi excavator venture but also with other large companies with a strong presence in this area, including Caterpillar and Komatsu.

MARKETS WEEK

February 15 - February 21

LIFFE CONNECT™
LIFFE's New Electronic Trading Platform

NEW YORK

By Richard Waters

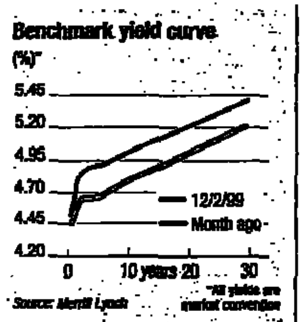
After today's Presidents Day holiday, the Treasury bond market faces a slew of economic data later in the week. The news could be supportive for the financial markets after last week's bloodbath but any sustained rally seems unlikely, given that next week will bring Federal Reserve chairman Alan Greenspan's Humphrey Hawkins testimony, which may give clues on whether US rates will rise soon.

This week's calendar will be dominated by the release, on Thursday and Friday, of January data for producer and consumer prices. Thanks to lower energy costs, the producer prices index is expected to have risen by 0.1 per cent in January, according to economists surveyed by Standard & Poor's MMS, while consumer prices will have risen by 0.2 per cent.

On Wednesday, the latest capacity utilisation figures are expected to show a further decline, to 80.6 per cent, as the industrial sector continued to bear the brunt of cheap imports and falling demand in overseas markets.

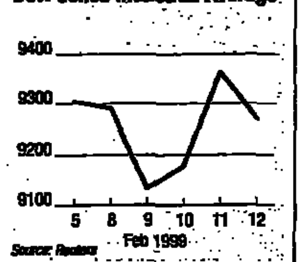
The same factors are likely to produce a December trade deficit, due to be reported on Friday, of more than $16bn, the second-highest monthly deficit on record after last August's $16.7bn.

Benchmark yield curve



Source: Merrill Lynch *All yields are market convention

Dow Jones Industrial Average



Source: Reuters

LONDON

By Steve Thompson

After the setback in UK stock prices, which ran to six straight sessions and ended on Thursday, dealers in the London market will be hoping for good news on corporate earnings this week.

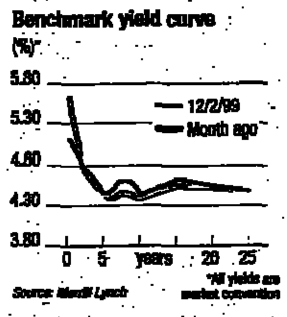
The preliminary corporate reporting season begins in earnest this week with eight FTSE 100 constituents, plus a host of FTSE 250 stocks, due to announce results.

They include some heavyweights, notably BP Amoco, SmithKline Beecham, Glaxo Wellcome, Barclays Bank, Halifax, Zeneca, GEC, Abbey National and Woolwich, with Rank heading the second line stocks.

There will be some respite for London today, with US markets closed for President's Day. But the pace hots up tomorrow with details of UK inflation in January, which, after last week's Bank of England inflation report, should hardly surprise the market. Minutes of the January 17 monetary policy committee meeting will make interesting reading, as will retail sales data for January.

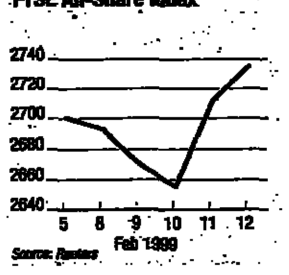
Wednesday brings the last trading in February stock options, while Friday is the last trading day in UK February index options and UA index and equity options.

Benchmark yield curve



Source: Merrill Lynch *All yields are market convention

FTSE All-Share Index



Source: Reuters

FRANKFURT

By Tony Barber

The Dax index of blue-chip stocks is set for another week of volatile trading, with worries about a correction on Wall Street and a possible rise in US interest rates to the fore.

Investors have also been rattled by the prospect of a strike in the metal and electrical industry, or – which some fear would be worse – a high wage settlement for the IG Metall union that would eat into companies' profits.

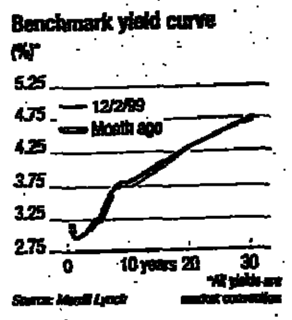
Annual results published so far this month show German exporters are struggling to overcome the effects of recession in Japan and currency devaluations in south-east Asia.

The telecommunications sector is still buoyant, however, and analysts say banks will begin to look attractive if it appears that they have finally recovered from the international financial shocks of last year.

Merger excitement may provide some upward momentum for the Dax, which just failed last week to climb above 5,000 points, and is likely to focus on the future of BMW.

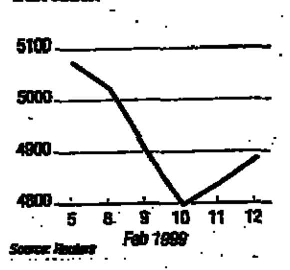
The car-maker was the best-performing stock last Friday and was said over the weekend to be attracting the attentions both of General Motors and of Volkswagen.

Benchmark yield curve



Source: Merrill Lynch *All yields are market convention

Dax index



Source: Reuters

TOKYO

By Alexandra Harney

The Bank of Japan's lowering of the overnight lending rate from 0.25 per cent to 0.15 per cent will weigh heavily on the markets this week. The cut, widely seen as a stop-gap measure to check the surge in long-term interest rates, should support share prices and put downward pressure on bond yields.

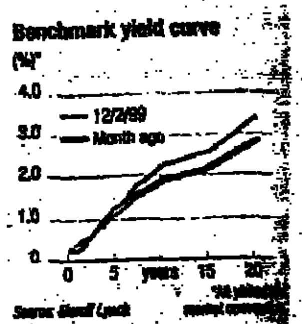
However, analysts said the effect could be short-lived. The yen's strengthening and the rise in long-term interest rates have hurt share prices amid concerns about shrinking exports and banks' bond holdings. The Nikkei 225 index finished at 13,973.69, only 75.61 points above its February 5 close.

Analysts said the rate cut could push the index to 14,300 this week, because it could weaken the yen. But the unwinding of companies' cross-shareholdings ahead of the close of the financial year could hold it back.

The yield on the benchmark 10-year government bond fell to 2.08 per cent last week, from 2.36 per cent.

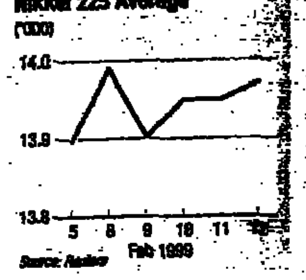
January sales data for Tokyo-area department stores and industrial production figures for December are expected to reflect weak consumer demand and companies' capital spending plans.

Benchmark yield curve



Source: Merrill Lynch *All yields are market convention

Nikkei 225 Average
('000)



Source: Reuters

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998/9 High	1998/9 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
–	F.P.	15.0	100	95	AIM VCT	100		–	–	–	–
–	F.P.	–	95½	88	Abbey Natl Dublin	88		–	–	–	–
–	F.P.	–	102½	101½	Acorn Income Fd	101½		–	–	–	–
§	F.P.	36.0	123	116½	BFS O'seas Inc	120		‡W12.65	–	10.5	–
§	F.P.	3.92	103	56	Do Cap	98	-1	–	–	–	–
–	F.P.	15.0	100	90	Close Bros Dev VCT	100		–	–	–	–
•	F.P.	36.9	7¾	7	Gander Properties	7		–	–	–	–
§	F.P.	46.8	100½	94¾	Jupiter Enhanced	98		–	–	–	–
§	F.P.	47.4	110	103¾	Do Zero Div Prf	106¾	+¾	–	–	–	–

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998/99 High	1998/99 Low	Stock	Closing price p	+or-
49	Nil	25/2	¾pm	¾pm	Ambient Media	¾pm	

pm premium.

FTSE GOLD MINES INDEX

	Feb 12	% chg since 31/12/98	Mkt Cap $bn	% of Gold Mines	Gross div yld %	Total return	52 week High	52 week Low
Gold Mines Index (29)	950.82	1.7	31.48	100.00	1.95	957.19	1351.57	701.58
■ Regional Indices								
Africa (9)	989.55	-0.2	8.10	25.73	4.24	1003.03	1488.04	785.83
Australasia (9)	1180.95	1.2	4.62	14.69	2.63	1192.78	1600.53	815.93
Americas (11)	906.04	2.8	18.75	59.58	0.80	908.63	1317.41	647.89

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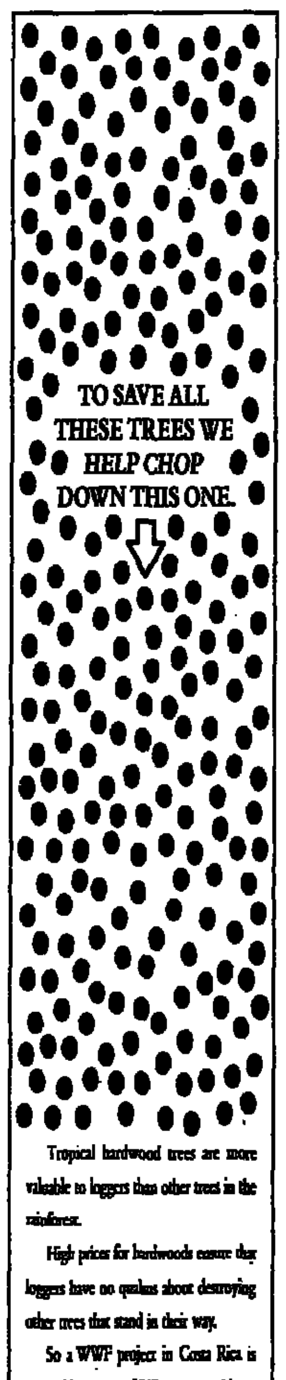
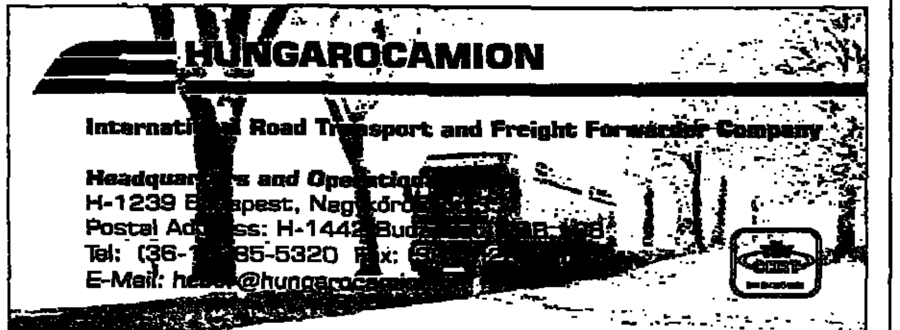
STOCK INDICES

	Feb 12	Feb 11	Feb 10	Feb 9	Feb 8	1999 High	1999 Low	Since comp. High	Since comp. Low
FTSE 100	5950.7	5888.5	5770.2	5779.9	5834.9	6179.8	4648.7	6179.0	986.9
FTSE 250	5187.7	5187.0	5157.6	5177.5	5205.4	5988.6	4251.2	5988.6	1379.4
FTSE 250 ex IT	5222.8	5224.3	5196.0	5213.0	5240.2	6030.6	4295.8	6030.0	1378.3
FTSE 350	2828.5	2803.4	2737.9	2759.1	2783.5	2987.6	2233.5	3546.4	664.5
FTSE SmallCap	2237.02	2225.76	2216.25	2221.96	2217.12	2888.09	1834.49	2888.09	1363.79
FTSE SmallCap ex IT	2209.50	2198.77	2191.70	2195.07	2187.42	2554.18	1815.83	2554.18	1363.79
FTSE All-Share	2736.41	2711.71	2663.16	2670.65	2692.85	2886.17	2166.07	2886.17	61.92

	Feb 12	Feb 11	Feb 10	Feb 9	Feb 8	1999 High	1999 Low	Since comp. High	Since comp. Low
FTSE Fledgling	1222.84	1216.71	1212.99	1218.11	1218.88	1317.11	1048.17	1317.11	31.14
FTSE Eurotop 100	2730.09	2703.05	2683.70	2684.52	2741.35	3066.91	2049.91	3066.91	2044.47
FTSE Eurotop 300	1192.90	1181.18	1164.86	1173.02	1197.21	1227.68	893.55	1327.68	874.06
FT 30	3620.3	3598.1	3540.1	3541.1	3584.0	3984.0	2806.8	3984.0	49.4
FT Govt Securities	114.81	115.63	115.74	115.56	115.43	117.17	93.31	141.84	49.18
FT Fixed Interest	157.58	158.50	158.69	157.98	157.70	159.89	115.32	158.59	50.53
FTSE Gold Mines	950.82	926.69	930.26	933.07	981.64	1351.57	701.58	2874.81	701.58





COMPANIES DIARY

Recovery hopes at Applied Materials

Applied Materials, the world's largest maker of computer chip equipment, is tomorrow expected to report first-quarter earnings per share of 6 cents, compared with 52 cents at the same stage a year ago.

However, analysts said it was also expected to demonstrate the beginnings of a recovery in the semiconductor capital equipment industry.

AFX-News, San Francisco

Sir Richard Sykes, chairman of Glaxo Wellcome, is looking for double-digit sales growth

TUESDAY

● Hewlett-Packard, the US computer group, is expected to report first-quarter earnings per share of 82 cents, against 86 cents in the year-earlier period.

Despite strong printer shipments, weak revenues from servers and Asian economic conditions continue to damp growth, according to analysts.

AFX-News, San Francisco

● *The reporting season* for the UK banks continues with final figures from Barclays expected to fall from the underlying £2.2bn last year, although the headline figure is likely to be an advance of some 12 per cent.

The figure itself is unlikely to surprise because the company said only weeks ago that its pre-tax result would be more than £1.9bn ($3.1bn), *so attention* is likely to focus on other issues. These are likely to include policies likely to be followed by Michael O'Neill, the successor to chief executive Martin Taylor, and the prospects for lending to UK business as the economy falters.

WEDNESDAY

● Weak crude oil prices are *likely to take their toll when* BP Amoco reports final figures, although comparison with previous years will be difficult because this will be the first time it will report as a combined entity. However, analysts seem to agree on one thing: that the company will report reduced income. Salomon Smith Barney estimates that the fourth-quarter net income will be $830m, *which is 41 per cent lower* than its estimate of $1.4bn for the same period last time. However, because of the merger and a lack of disclosure below the operating income line, there is a wide range of estimates.

The decline in income may prompt the company to announce that it is accelerating its restructuring process.

● Final figures from Zeneca are unlikely to surprise, as *they come hard on the heels* of nine-month numbers. A consensus of estimates from First Call suggests a figure of £1.064bn, a decline of 1.5 per cent partly because of currency factors. The focus is likely to be on any improvement in new products to deal with schizophrenia, asthma and migraine.

THURSDAY

● Crédit Commercial de France will report 1998 net profit of FFr1.81bn (€275m, $310m), up from FFr1.6bn a year earlier, according to the consensus of analysts' forecasts. However, analysts will be less interested in the results than in hearing about the bank's strategic plans to create the growth needed to remain independent.

AFX-News, Paris

● Glaxo Wellcome has committed itself to double-digit sales growth from this year, so analysts' attention is likely to focus on prospects of achieving this. Double-digit sales advances should provide funds for research and development and hence lead to further growth in earnings per share so the shares may react positively to any confirmation that the company is achieving its ambition.

First Call suggests a pre-tax figure of £2.55bn ($4.2bn) for 1998, a decline of about 5 per cent.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Delta Electronics(a)§	100	Feb 2006	1.00	100.00	-	-	Warburg Dillon Read
Rabobank Nederland	250	Dec 2002	5.25(d)	99.89R	5.288	+42(4½Jan01)	Tokyo-Mitsubishi Intl
Bangko Sentral ng Pilipinas	300	Feb 2001	7¾(d)	99.816	7.851	+305(Jan01)	Chase Manhattan Intl
Republic of the Philippines(b)	200	Jan 2019	9.875#	100.75R	9.787	+436(Aug28)	JPM/MSDW/Warburg
HFC Bank‡	50	Aug 2000	(c)	100.00	-	-	WestLB
Merrill Lynch & Co Inc	2bn	Feb 2009	6.00#	99.466R	6.089	+120(Nov08)	Merrill Lynch
Province of Quebec	1bn	Feb 2009	5.75#	99.736R	5.785	+80(4¾Nov08)	CSFB/Goldman/SSB
Export-Import Bk of Japan‡	1bn	Mar 2004	(m)	99.50R	-	-	Paribas
European Inv'ment Bank(k)	250	Sep 2008	5.375	99.46	5.444	+46(4¾Nov08)	Greenwich NatWest
Oest Investitionskredit‡	150	Feb 2004	(o)	99.928R	-	-	Commerzbank
Freddie Mac	4bn	Feb 2001	5(d)	99.894R	5.058	+30(4½Jan01)	CSFB/Goldman/Merrill
CCCMT 1, '99-1, Cl A(a)‡	750	Feb 2004	5⅛(d)	99.768R	5.554	+73(4¼Nov03)	Salomon Smith Barney
LW Rentenbank	750	Feb 2004	5.375	99.858R	5.408	+58(4¾Feb04)	Lehman/Salomon SB
Asian Development Bank	500	Feb 2002	5.25	99.888R	5.291	+45(4½Jan01)	Salomon Smith Barney
Inter-American Dev Bank	1bn	Feb 2001	5.125#	99.964R	5.144	+35(4½Jan01)	Goldman/Warburg DR
Telenor AS	250	Mar 2008	5.50(d)	99.58R	5.577	+70(4¾Feb04)	Warburg Dillon Read
Daimler-Chrysler Aust Pac	200	Mar 2003	5.25	99.24R	5.457	+60(4½Jan01)	Warburg Dillon Read
Pinlayson Global Corp(L1)§	350	Feb 2004	zero	100.00	-	-	DBS/Goldman Sachs
AMRT 99-A(b)★	700	-	-	-	-	-	CSFB
European Inv'ment Bank(II)	250	Jan 2009	5.25	97.681	5.559	-	Salomon Smith Barney
HypoVereinsbank	200	Mar 2003	4⅝(d)	97.05R	5.485	+80(4½Jan01)	HypoVereinsbank
Nederlandse Gasunie	200	Mar 2002	5.125	99.794R	5.201	+34(4½Jan01)	ABN Amro
Bank of Western Australia‡	200	Feb 2000	(P)	99.97	-	-	Merrill Lynch
STERLING							
Helaba Intl Finance	200	Dec 2009	4.75(a)	99.0575R	4.99	+66(5¾Dec09)	RBC DS Global Markets
LCR Finance	1.225bn	Dec 2028	4½(h)	99.179R	4.551	+33(6%Dec28)	HSBC/Warburg DR
LCR Finance	425	Dec 2038	4½(h)	99.968R	4.501	+28(6%Dec28)	HSBC/Warburg DR
KfW Intl Finance(D)	400	Dec 2028	6.00	118.517	4.816	-	Warburg Dillon Read
European Inv'ment Bank(E)	250	Dec 2028	6.00	119.315	4.771	+50(6%Dec28)	Dresdner KB
Brixton Estates plc	100	Dec 2018	6⅞s	99.402R	6.85	+170(8%-08)	HSBC Midland/Warburg DR
European Inv'ment Bank(H)	325	Dec 2028	zero	24.833	4.787	-	Barclays Capital
Tesco plc(I)	100	Dec 2009	5⅛(s)	98.672	5.29	+90(5¾Dec09)	Royal Bk of Scotland
YEN							
LB Baden-Wuerttemberg(K)★	11bn	Mar 2009	4⅛(R)	99.95	-	-	Nomura International
Ensemble Ltd(w)★	91.5bn	-	-	-	-	-	Nomura International
SWISS FRANCS							
Helaba Intl Finance	250	Mar 2005	2.60	99.45	-	-	Warburg Dillon Read
Electricité de France(F)	200	Feb 2005	2.50	101.65	-	-	Deutsche Bank (Switz)
Crédit Local de France	200	Mar 2006	2.50	101.15	-	-	ABN Amro
Vorarlberger L-& Hypo‡	200	Feb 2004	(J)	100.15	-	-	CSFB
Cie de Saint Gobain(K)	150	Jan 2004	2.50	101.70	-	-	CSFB
UBS Jersey Branch	250	Mar 2006	2.50	101.70	-	-	Warburg Dillon Read
CANADIAN DOLLARS							
Province of Manitoba	150	Mar 2008	5.25	99.49R	5.341	+22(5¾Dec05)	CIBC
GMAC Canada	100	Jan 2004	5.50(l)	99.58R	5.58	+57(5¼Sep03)	TD Securities
DANISH KRONER							
DSL Bank	400	Mar 2009	4.75	102.50	-	-	ING Barings-BBL*
NORWEGIAN KRONER							
European Investment Bank	400	Mar 2004	4.875	100.02r	4.870	-	DG Bank
CANADIAN DOLLARS							
Province of Manitoba	150	Mar 2008	5.25	99.49R	5.341	+22(5¾Dec05)	CIBC
GMAC Canada	100	Jan 2004	5.50(l)	99.58R	5.58	+57(5¼Sep03)	TD Securities

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
EUROS(a)							
Bilbao Vizcaya Intl(t)	500	undated	5.76(k)	100.00	-	-	Bilbao Vizcaya/Salomon
Rallye SA(f)	300	Feb 2009	4⅝(l)	99.79R	4.662	+105(-OAT)	Merrill Lynch
BCP Finance Bank‡	300	Feb 2002	(g)	99.827R	-	-	Warburg Dillon Read
Svenska Handelsbanken‡	250	Aug 2000	(h)	99.99	-	-	Deutsche Bank
UBS, Jersey Branch(i)	75	Aug 2000	14.00	100.00	-	-	Warburg Dillon Read
Repsol Intl Finance NV	1.1bn	Feb 2004	3.75	99.731R	3.810	+45(6¾Nov03)	BBV/Goldman/Invercaixa
Deutsche Finance Nellso‡	500	Feb 2004	(l)	99.778R	-	-	Deutsche Bank
La Poste(f)	400	Apr 2009	4.00(e)	99.388R	4.076	+20(Apr09)	JP Morgan/Paribas
Muenchener Hypo(b)	400	Feb 2009	4.125	99.70R	4.162	+37(3¾Jan09)	BGL and 5 others
Hellenic Republic(u)	300	Mar 2019	5.00	99.46R	5.048	-	BP di Novara/CSFB
Oest Kommunalkredit‡	200	Feb 2005	(n)	99.753R	-	-	Deutsche Bank
European Inv'ment Bank(o)‡	100	Mar 2006	7.00	101.875	-	-	ASLK-CGER
DePfa Bank(y)	50	Feb 2022	(y1)	99.00R	-	-	Caboto/Morgan Stanley
Cades(A,I)	500	Jul 2004	3⅛(d)	99.564R	3.467	+11(3½Jul04)	Lehman/Nomura/Paribas
Royal KPN(B)	477.42	Nov 2008	4.75	103.595R	4.275	+48(3¾Jan09)	ABN Amro/Warburg DR
Agence Française de Dev(f)	300	Apr 2009	3.90(k)	99.376R	3.977	+12(4%Apr09)	CCF/JP Morgan
Svenska Handelsbanken‡	150	Aug 2000	(C)	99.912	-	-	SG
BCL International Finance‡	400	Feb 2000	(G)	99.989	-	-	Barclays/SG
Republic of Argentina	300	Mar 2004	9.50	99.50R	9.631	-	CSFB/Deutsche Bank
Bayerische Landesbank(l)	200	Mar 2009	4.30	99.411R	4.374	+50(l)	BCEE/CDC Marchés
Pinlayson Global Corp(L2)§	350	Feb 2004	zero	100.00	-	-	DBS/Goldman Sachs
Public Pwr Corp of Greece(Q)	500	Mar 2009	4.50	98.425R	4.701	+67(3¾Jan09)	CSFB/Paribas
GECC	250	Mar 2004	3.25	99.43R	3.376	-	Warburg Dillon Read
China Finance, Cie A(S,I)	109.76	Dec 2008	4.70	100.78	4.60	+100(l)	Greenwich NatWest
EBRD	50	Mar 2024	(R)	99.50R	-	-	BPW/Caboto/MSDW
GREEK DRACHMA							
Bank Austria	10bn	Feb 2002	6.25	99.78R	6.333	-	WestLB
European Investment Bank	30bn	Mar 2002	6.00	99.9125R	6.033	-	Alpha Credit/TD Secs
Crédit Local de France	20bn	Feb 2002	6.35	100.00R	6.350	-	Dexia/Unicredito

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ΦWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Conversion price: T$56. FX: 32.288T$/$. Puttable on 23/2/02 at 114.85% and 04 at 129.39. Callable from 23/2/00, subject to 135% hurdle, at 5-yr accreted value. Greenshoe: $20m. b) Fungible with $600m. Plus 31 days accrued. c) 3-mth Libor +7bp. d) €500m launched on 5/2/99 was increased to €1bn. Preference shares of €50. Callable from Mar 04 at €50. e) Spread relates to German government bonds unless stated. f) Spread relates to French govt bonds. g) 3-mth Euribor +15bp. h) 3-mth Euribor flat. Short 1st & short last coupons. i) Over interpolated yield. j) Issuer may redeem at par or 8.2713 Nokia shares per €1,000 bond. k) Redeemed in US$ if S/Y falls below reference rate. l) Long 1st coupon. m) 3-mth Libor -6¼bp. n) Fungible with $1.75bn. Plus 157 days accrued. o) 3-mth Libor +12½bp. p) Oeffentliche Pfandbrief. q) Quarterly coupons. r) Recommended reoffer. s) Short 1st coupon. t) 3-mth Euribor +½%. u) Italian domestic. v) 3-mth Euribor +12½bp. w) 3-tranche repackaging of euroyen bonds. x) €200m launched in recent weeks increased to €300m. Redemption linked to any fall in Dow Jones Euro Stoxx 50 index; max par. y) €50m launched 28/1/99 was increased to €110m. Callable annually from 22/2/00 at par. y1) 15% in yr 1, 6% in yr 2, 5% in yr 3, 4% in yrs 4-10, then 9% - 12-mth Euribor. z) Legal maturity: 15/2/06. Also: Class B, $45m, 4.98 yrs, 5¼%, 99.896R, +85bp. A) Fungible with €1.5bn. Plus 9 days accrued. B) Fungible with Dfl2bn (€1.02258bn). Plus 109 days accrued. C) 3-mth Euribor -6¼bp. D) Fungible with £600m. Plus 72 days accrued. £250m issued at 118.517 and £150m at 118.39. E) Fungible with £1.375bn. Plus 72 days accrued. F) Fungible with SFr200m. Plus 30 days accrued. G) 3-mth Euribor -3¼bp. H) £175m at 24.833% and £150m at 24.699%. J) 3-mth Libor flat. K) Fungible with SFr250m, plus 71 days accrued. L) Exchangeable into DBS shares at S$11.59 (0.4 foreign + 0.6 local share; options available). FX: S$1.693: US$1. If local and foreign shares cease to be separately designated, then bonds callable after 3 yrs, subject to 145% hurdle, at accreted value. Mandatory exchange clause. S$ tranche also issued. L1) Redemption price: 113.23%. L2) Redemption price: 123.40%. M) AmeriCredit Automobile Receivables Trust. 4-tranche issue. N) Fungible with $750m. Plus 37 days accrued. P) 3-mth Libor flat. Q) Event risk clause. R) 12% in yr 1 & 25, 5% in yrs 2-3 & 22-24, 4% in yrs 4-5 & 21-22 and 9% - 12-mth Euribor in other yrs summed and paid at maturity, min 75%. S) Backed by French multi-tenanted mainly residential properties. Plus 64 days accrued. Also: Class B of €28.67m, Class C of €38.50m and Class D of €53.36m. T) Fungible with £150m. Plus 45 days accrued. Note: Yields are calculated on ISMA basis.

WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbott Laboratories $0.15
Anglo American Inv 6% Prf R0.06
BT 8.1p
Bulmer (HP) 5.2p
Burndene Invs 1.7p
Caterpillar 6% Nts 2003 $60
City Mtgs Rec 1 FRN Feb 2023 £28.02
Do Rec 3 FRN Oct 2023 £62.61
Do Rec 5 Class A Dfd FRN Sep 2023 £7.61
Do Rec 6 Class B FRN Mar 2029 £62.61
Fishguard & Rosslare Rail & Harbours 3½% Prf 1.225p
Greencore Ir5.65p
Halma 1.308p
Hasbro Inc $0.08
Housing Finance Agency 8¾% 2018 Ir4.375
Japan Devlpt Bank 8⅜% Nts 2001 $418.75
Kingfisher 8⅛% Bds 2007 £81.25
Prospect 2 Class A Nts 2005 £1827.69
Do Class B 2007 $1892.07
Do Class C £958.91
Readicut Intl 0.63p
Rothchilds Continuation 9% Nts £90
Scottish Metropolitan Prop 10¼% Deb 2016 £5.125
SONAR 1 Class A FRN 2021 £115.76
Do Class B FRN 2021 £208
Do Class c FRN 2021 £224.19
Teijin 6.4% Bds 2001 Y640000
Tokyo Electric 7% Nts 2007 $350
Viridian Uns Nts 2003 1.893p
Yates Bros 1.38p

■ TOMORROW
Abbey Ir3.5p
Barclays Bank 6½% Nts 2004 £65
BES Overseas Series A NV Prf $0.47
Chester Asset Rec No3 FRN 2003 £1826.14
Colgate-Palmolive $0.275
Halifax 6½% Bds 2004 £65
Do 10½% Bds 2018 £1050
Ocwen Mtg Lns 1 FRN Jun 2029 £225
Do Class A2 FRN 2029 £601.51
Do Class M1 FRN 2029 £576.10
Do Class M2 FRN Jun 2029 £615.60
Do Class B FRN Jun 2029 £690.08
Ocwen Mtg Lns 2 Class A1 FRN Dec 15 2030 £453.86
Do Class A2 FRN Dec 5 2030 £601.51
Do Class B FRN Dec 15 2030 £794.38
Do Class M FRN Dec 15 2030 £627.81
Do Class S FRN Dec 15 2030 £882.06
Racal ADR $0.0886
State Bank of New Sth Wales 7% Bds 2004 A$70

■ WED FEB 17
Aberdeen High Inc Tst 2p & (Spec 1p)
Aire Valley Finance Class A1 2039 £720.10
Do Class A2 FRN 2039 £1793.01
Baggeridge Brick 3.15p
Barnsley Metro Borough Council 8% 2017 £4
Eksportfinans FRN 2003 $27.95
FirstGroup 2.5p
Peabody 10¼% 2923 £5.125
Slough Ests 7⅛% 2010 £71.25
Sud Landesbank Cap Mkts 7⅛% 1995/99 DM71.25
Warburg SG 9% Nts £90

■ THURS FEB 18
National Treasury Servs FRN 2002 £1798.73
Archimedes Inv Tst Inc 23p
Bank of Scotland FRN 2000 $15236.60
BOC 6¾% Bds 2004 £67.50
Bradford & Bingley BS FRN 2003 £39.05
Century Inns 5.3p
Credit Foncier de France 10¼% Ln 2011 £256.25
European Inv Bank 8% Bds 2006 Ir4p
Field 3.6p
Granada 10% 1st Mtg 2018 £5
Halifax Collared FRN 2003 $39.05
Intl Bank of Rec & Devlpt 10⅜% Nts 1999 £518.75
LAB 7⅛% Bds 2019 3.5625p
NatWest Primary Cap FRN Series B $303.47
Robert Wiseman Dairies 1.4p
State Bank of New Sth Wales 9¼% Bds 2003 A$92.50
Yapi Kredi Finance 10% Nts 2002 $50

■ FRI FEB 19
Allied Domecq 15.6p
Do ADR 15.6p
Alvis 1p
Arcadia 7p
Bass ADR $0.8693
Carpetright 9.5p
Chevron $0.61
Debenhams 5.9p
Denmans Elect 2.5p
Evans Halshaw 11.5p
Fleming Contl European Inv 5% Prf 1.361644p
Korea Exchange Bank FRN 2006 $7716.59
Murray Intl Tst 3.35p
NatWest Var Cap 2008 $163.24
Royal Bank of Scotland 17.47p
Siemens DM1.50

■ SAT FEB 20
Stanley Leisure 1.65p

UK COMPANIES

■ TODAY
BOARD MEETINGS:
Finals:
Mersey Docks & Harbour
Norsk Hydro
Royalblue

■ TOMORROW
COMPANY MEETINGS:
Baggeridge Brick, Chamber of Commerce House, 75, Harborne Road, Birmingham, 12.00
Fountain Forestry, Whately Hall Hotel, Banbury, Oxon, 11.30

BOARD MEETINGS:
Finals:
Anglo & Overseas
Barclays
Low & Bonar
Morgan Sindall
St Modwen Props

Interims:
Black (P)
Compel
Gearhouse
Macro 4
Paterson Zochonis

■ WEDNESDAY FEBRUARY 17
COMPANY MEETINGS:
Stakis, Stakis Dunblane Hotel, Dunblane, Perth, 11.15

BOARD MEETINGS:
Finals:
Allied Irish Banks
BP Amoco
Dobbies Garden Centre
Woolwich
WPP
Zeneca

Interims:
Allied Carpets

■ THURSDAY FEBRUARY 18
COMPANY MEETINGS:
Crown Leisure, The Institute of Chartered Accts, Moorgate Place, EC2, 11.00
LPA, 21, New Street, Bishopsgate, EC2, 11.00
Tomkinsons, Chantry, St Mary's Church, Kidderminster, Worcestershire, 12.00

BOARD MEETINGS:
Finals:
Glaxo Wellcome
Halifax

■ FRIDAY FEBRUARY 19
COMPANY MEETINGS:
Allders, Four Seasons Hotel, Hamilton Place, Park Lane, W1, 11.00
SHL Group, SHL Management Centre, Woodstock Lane North, Long Ditton, Surrey, 12.00

BOARD MEETINGS:
Finals:
Abbey National
Beta Global Emerging

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

CONFERENCES, VENUES AND COURSES

CURRENCIES & MONEY

Pressure on ECB

By Melanie Carroll

Attention may focus on the prospects for the euro this week, although most analysts expect no interest rate cuts from the European Central Bank at its meeting on Thursday.

Steve Barrow, currency strategist at Bear Stearns, said he expected to see the euro sink to \$1.12 or \$1.10.

"We think there's more chance than most in the market of a cut, but it may be a little bit premature," Mr Barrow said.

"Political pressure on the ECB is no good for the euro's cause. It's inappropriately high at the moment," he added.

Meanwhile on Friday, the US announcement of December trade figures is unlikely to turn too many heads, said Mr Barrow.

Some economist have forecast the US trade deficit will increase to \$16bn from \$15.5bn in November.

"But the release of data, even US data, hasn't flustered the market for a long time. It's also a day ahead of the G7 meeting in Bonn," he said.

During the week, the market will still be speculating on the effects of the Bank of Japan's cut in interest rates last Friday.

Japan is believed by many to follow other central banks in cutting interest rates. However Mr Barrow pointed to events last year when the BoJ cut rates in early September, followed by the US and the Bank of England in October, then the ECB in November.

"I'm sure some will say the BoJ and BoE cuts are a co-ordinated way to drop rates before the G7 meeting," Mr Barrow said.

In the UK, January retail sales data released on Thursday are expected to show a rise of between 0.5 per cent and 1.5 per cent.

They fell 1 per cent in December.

Mr Barrow said he expected sterling to fall over the week against the euro.

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

† Rates for Feb 11. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. * EMU member. The exchange rates printed in this table are also available on the Internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

Feb 12	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	3¼	3⅛	3⅛	3	3	-	3.00	3.00
week ago	3⅛	3⅛	3⅛	3⅛	3⅛	-	3.00	3.00
Switzerland	1⅛	1⅛	1¼	1⅛	1⅜	-	1.00	-
week ago	1⅛	1⅛	1⅛	1⅛	1½	-	1.00	-
US	4⅞	4⅞	4⅞	4⅞	5⅛	-	4.50	-
week ago	4¾	4⅞	4⅞	4⅞	5⅛	-	4.50	-
Japan	⅛	⅛	¼	¼	⅜	-	0.50	-
week ago	⅛	⅛	¼	¼	¼	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	4⅞	4⅞	5	5⅛	-	-	-
week ago	-	4⅞	4⅞	5	5⅛	-	-	-
US Dollar CDs	-	4.74	4.79	4.82	4.91	-	-	-
week ago	-	4.74	4.79	4.82	4.91	-	-	-
Euro Linked Ds	-	3⅛	3⅛	3⅛	3⅛	-	-	-
week ago	-	3⅛	3⅛	3⅛	3⅛	-	-	-
SDR Linked Ds	-	3⅛	3¼	3⅛	3⅛	-	-	-
week ago	-	3⅛	3¼	3⅛	3⅛	-	-	-
BBA Euro Libor	-	3⅛	3⅛	3⅛	3⅛	-	-	-
week ago	-	3⅛	3⅛	3⅛	3⅛	-	-	-
Euro Euribor	-	3.135	3.100	3.049	3.039	-	-	-
week ago	-	3.156	3.107	3.044	3.026	-	-	-
EONIA	3.08	-	-	-	-	-	-	-
week ago	3.15	-	-	-	-	-	-	-
EURONIA	3.0719	-	-	-	-	-	-	-
week ago	3.1514	-	-	-	-	-	-	-

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Feb 12	Short term	7 days notice	One month	Three months	Six months	One year
Euro	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 2⅞	3⅛ - 2⅞
Danish Krone	3⅞ - 3⅝	3⅞ - 3⅝	3⅞ - 3½	3⅞ - 3½	3⅞ - 3⅝	3⅞ - 3⅝
Sterling	5¾ - 5½	5⅞ - 5⅜	5⅜ - 5¼	5⅜ - 5⅜	5¼ - 5⅛	5⅛ - 5⅛
Swiss Franc	1⅛ - ⅞	1⅛ - ⅞	1⅛ - 1⅛	1⅛ - 1⅛	1⅜ - 1¼	1⅜ - 1⅜
Canadian Dollar	5⅛ - 4⅞	5 - 4⅞	5⅛ - 4⅞	5⅛ - 4⅞	5 - 4⅞	5⅛ - 4⅞
US Dollar	4⅞ - 4⅝	4⅞ - 4⅞	4⅞ - 4⅞	5 - 4⅞	5⅛ - 4⅞	5⅛ - 5⅛
Japanese Yen	⅜ - ⅛	⅜ - ⅛	⅜ - ⅛	⅜ - ⅛	⅜ - ⅛	⅜ - ¼
Asian $Sing	1 - ¾	1¼ - 1	1¼ - 1	1⅞ - 1⅜	2¼ - 1⅞	2⅜ - 2⅛

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.99	94.97	-0.02	94.99	94.96	51,714	436,309
Jun	94.97	94.90	-0.08	94.97	94.89	48,594	444,809
Sep	94.94	94.84	-0.10	94.94	94.83	103,302	410,752

■ US TREASURY BILL FUTURES (CME) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.67	95.62	-0.05	95.67	95.62	108	2,511
Jun	95.69	95.64	-0.08	95.69	95.68	2	708

All Open interest figs. are for previous day

■ POUND IN NEW YORK

Feb 11	— Close —	— Prev. close —
£ spot	1.6325	1.6230
1 mth	1.6317	1.6223
3 mth	1.6311	1.6215
1 yr	1.6316	1.6220

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

■ OTHER CURRENCIES

Feb 12	£	$
Czech Rp	54.7132 - 54.8134	33.5870 - 33.6320
Hungary	360.335 - 360.838	221.200 - 221.400
Iran	4889.40 - 4887.00	3000.00 - 3000.00
Kuwait	0.4931 - 0.4938	0.3027 - 0.3030
Peru	5.5321 - 5.5397	3.3960 - 3.3990
Poland	6.1316 - 6.1509	3.7640 - 3.7740
Russia	37.5973 - 37.7299	23.0800 - 23.1500
U.A.E.	5.9830 - 5.9867	3.6728 - 3.6733

BANK RETURN

The Bank Return table can be found on page 27 in today's edition.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

■ D-MARK FUTURES (CME) DM 125,000 per DM

[illegible]

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

[illegible]

■ JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.8758	0.8767	+0.0007	0.8815	0.8684	10,825	70,602
Jun	0.8848	0.8870	+0.0008	0.8910	0.8848	98	5,110
Sep	-	0.8977	+0.0009	-	-	1	1,498

■ STERLING FUTURES (CME) $62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	1.6214	1.6304	+0.0094	1.6314	1.6206	9,124	55,065
Jun	1.6240	1.6300	+0.0098	1.6300	1.6240	79	1,850
Sep	-	1.6302	+0.0088	1.6250	-	260	230

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

BENCHMARK GOVERNMENT BONDS

[illegible]

London closing. * New York closing. Yields: Local market standard. Prices: US, UK in 32nds, others in decimal. Source: Interactive Data/ATT International.

UK INTEREST RATES

LONDON MONEY RATES

Feb 12	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7¼ - 5½	5¾ - 5¾	5⅜ - 5⅛	5⅜ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅛
Sterling CDs	-	-	6⅛ - 6	5⅞ - 5¾	5⅞ - 5⅞	5⅞ - 5⅞
Treasury Bills	-	-	5⅞ - 5⅞	5⅞ - 5⅞	-	-
Bank Bills	-	-	5⅞ - 5⅞	5¾ - 5⅞	-	-
Local authority deps.	6¼ - 5⅛	5⅛ - 5⅛	5⅞ - 5⅞	5⅛ - 5⅛	5½ - 5⅛	5⅛ - 5⅛
Discount Market deps	6 - 5¾	5⅞ - 5¾	-	-	-	-

UK clearing bank base lending rate 5½ per cent from Feb 4, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Feb 12, 5.0007pc. ECGD fixed rate Stg. Export Finance. Make up day Jan 29, 1999. Agreed rate for period Feb 24, 1999 to Mar 23, 1999, Scheme III 7.19pc. Reference rate for period Jan 1, 1999 to Jan 29, 1999, Schemes IV & V 5.925pc. Finance House Base Rate 6.5pc for Feb 1999.

BANK OF ENGLAND TREASURY BILL TENDER

	Feb 12	Feb 5		Feb 12	Feb 5
Bills on offer	£100m	£100m	Top accepted rate	5.0137%	5.1040%
Total of applications	£745m	£610m	Ave. rate of discount	5.0007%	5.1040%
Total allocated	£100m	£100m	Average yield	5.0637%	5.1697%
Min. accepted bid	£98.750	£98.725	Offer at next tender	£100m	£100m
Allotment at min. level	70%	100%	Min. accept. bid 28 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	6.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	●Robert Fleming & Co	5.50	Sun Bank	5.50
●Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	●SG Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50			Yorkshire Bank	5.50
Bank of Scotland	5.50	Hongkong & Shanghai	5.50		
Barclays Bank	5.50	Investec Bank (UK) Ltd	5.50	● Members of London Investment Banking Association	
Brit Bk of Mid East	5.50	Julian Hodge Bank	5.50		
●Brown Shipley & Co Ltd	5.50	●Leopold Joseph & Sons	5.50		
Citibank NA	5.50	Lloyds Bank	5.50		
Clydesdale Bank	5.50	Midland Bank	5.50		
The Co-operative Bank	5.50	NatWestminster	5.50		
Coutts & Co	5.50	●Rea Brothers	5.50		
Cyprus Popular Bank	6.00	Royal Bk of Scotland	5.50		
Duncan Lawrie	5.50	Scottish Widows Bank	5.50		
		●Singer & Friedlander	5.50		

UK GILTS PRICES

Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)						
Treas 9½pc 1999	100.0000	—	1,809	Jy15 Ja15	11.1	1347
Treas Flg Rate 1999	100.0489	—	5,700		2.12	4845
Exch 12¼pc 1999	100.7213	-.1	3,050	Se26 Mr26	17.9	1284
Treas 10½pc 1999	101.9409	-.1	1,252	Nv19 My19	10.11	1288
Treas 6pc 1999	100.5017xd	—	6,950	Fe10 Au10	1.2	3835
Conv 10¼pc 1999	103.8713	—	1,768	My22 Nv22	12.11	1242
[illegible]						

Notes	Price £	Wk % +/-	Amnt £m
Conv 9½pc 2005	125.8012	-1.1	4,842
Exch 10½pc 2005	133.1672	-1.0	23
Treas 12½pc 2003-5	133.9331	-.7	2,200
Treas 8½pc 2005	122.7384	-1.2	10,373
Conv 9¾pc 2006	132.8618	-1.3	6
Treas 7¾pc 2006	119.8694	-1.3	4,000
Treas 8pc 2002-6	110.7552	-.4	2,050
[illegible]			

Other Fixed Interest

[illegible]

EQUITIES

Bourses look to bond yields for direction

EUROPEAN OVERVIEW

By Khozem Merchant

Euro-zone equity markets will this week take their cue from the bond markets and the general direction of yields. US yields have risen recently, with the spread between 10-year treasuries and 10-year bunds now breaching the historic resistant level of 120 basis points.

The movement has been driven by the continuing strength of the US economy, which continues to amaze, in contrast to the sluggish euro-zone economy.

This bond market backdrop is likely to make euro-zone equity markets hesitant, says Joe Hall at Deutsche Bank. "European equities have gone from being concerned solely with slowing growth and valuations to being concerned about direction of bond yields and the impact of valuations on equity markets," he said.

This nervousness will affect high-value sector such as telecoms, pharmaceuticals and technology.

Telecoms was one focus of attention last week, with British Telecommunications reporting better-than-expected third-quarter results, partly the result of strong uptake of internet usage. Telecoms stocks will continue to motor ahead, say analysts, if France Telecom reports similar trends figures when it reveals its annual revenues this week. Analysts forecast the French operator will report a 6 per cent rise in revenues to FFr168bn, €25bn, a modest pick-up on the previous year.

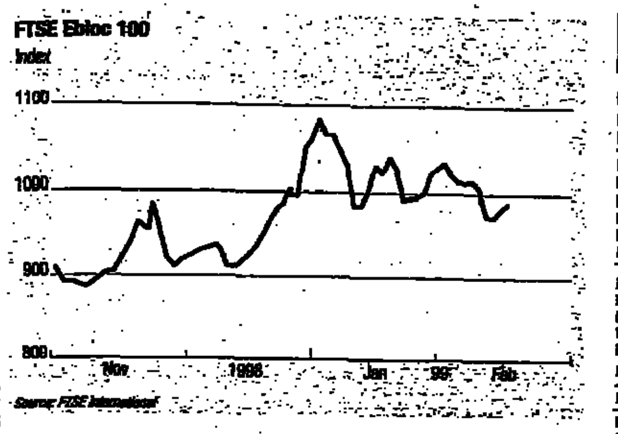
Panafon , the Greek cellular operator that is majority-owned by the UK's Vodafone, will also report this week and interest will focus on how successful it has been in holding on to market share. Panafon, which has traditionally led the domestic field, is under pressure from two aggressive rivals, stet Hellas and Cosmote.

Barclays will report its full-year results this week and analysts expect a figure of about £1.9bn, marginally up on last year.

Elsewhere the European motor industry will be the focus of intense interest following the breathless pace of restructuring in the sector. Speculation is mounting of a cross shareholding arrangement between Volkswagen and BMW.

Analysts say it would make economic sense to rationalise production at Rover, BMW's troubled UK subsidiary, alongside a volume producer such as VW.

FTSE Ebloc 100



Source: FTSE International

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.940	96.950	+0.005	96.960	96.925	34444	127269
Jun	97.060	97.055	-0.010	97.080	97.040	21853	113094
Sep	97.105	97.100	-0.015	97.125	97.085	28332	88260
Dec	96.880	96.865	-0.025	96.910	96.850	11937	70948

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.940	96.950	+0.005	96.955	96.940	398	160708
Jun	97.045	97.055	-0.010	97.065	97.045	1867	127090
Sep	97.095	97.100	-0.015	97.125	97.095	234	123101
Dec	96.890	96.865	-0.025	96.900	96.850	89	99558

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	CALLS Mar	Jun	Sep	Dec	PUTS Mar	Jun	Sep	Dec
96875	0.090				0.015			
97000	0.040	0.135	0.205	0.160	0.090	0.080	0.105	0.295
97125	0.010				0.185			
97250	0.005	0.045	0.100	0.085	0.305	0.240	0.250	0.470

Est. vol. total, Calls 694 Puts 551. Previous day's open int., Calls 345968 Puts 178055

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	2755.0	2730.0	+40.0	2755.0	2750.0	23	7194
Jun		2734.0	+40.0			0	0

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

	2600 C	2600 P	2650 C	2650 P	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P
Feb	106	22	72	31	43	54	23	91	12	128	6	173	3	223	2	271
Mar	176	80	142	101	113	125	88	151	67	179	50	214	38	251	28	291

Est. vol total- . Prev day's open interest total: 5,826 . Premiums shown are based on settlement prices.

OTHER INDICES

	Feb 12	Feb 11	Feb 10	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3359.43	3321.13	3260.29	3670.82	2433.07	3670.82	2433.07
DJ Euro Stx 50	3405.68	3375.42	3325.56	3665.36	2419.23	3665.36	2419.23
MSCI Europe	(u)	1172.22	1156.13	1315.55	908.59	1315.55	510.78

Source: Financial Times Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Feb 12 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1192.90	+0.99	+11.72	2.28	0.55	1228.88
FTSE Eurotop 100	2730.09	+1.00	+27.03	2.32	1.81	979.27
FTSE Ebloc 100	989.58	+0.74	+7.23	2.11	0.39	1004.88
FTSE EuroMid	1182.45	+0.69	+8.08	2.83	1.22	1226.50
FTSE EuroMid Ebloc	1191.61	+0.52	+6.19	2.35	1.38	1218.21
FTSE EuroMid Ex UK	1232.31	+0.69	+8.43	2.21	0.95	1258.10
FTSE Eurotop 300 Regions						
Eurobloc	1240.71	+0.72	+8.82	2.05	0.69	1267.98
UK	1126.90	+1.44	+16.00	2.69	0.59	1163.82
Europe Ex-Eurobloc	1155.37	+1.29	+14.67	2.58	0.42	1197.13
Europe Ex-UK	1231.07	+0.76	+9.33	2.08	0.54	1254.64
FTSE Eurotop Industry Sectors						
RESOURCES	894.34	+0.11	+0.92	3.47	0.94	873.47
Mining	875.90	+3.46	+29.27	4.00	0.00	894.40
Oil & Gas	801.21	-0.04	-0.29	3.45	0.94	821.57
BASIC INDUSTRIES	1053.39	-0.12	-1.26	2.81	0.86	1076.70
Chemicals	808.98	+0.12	+0.98	2.79	0.85	824.90
Construction & Bld Matls	958.20	-0.87	-8.40	2.44	1.13	965.68
Forestry & Paper	890.85	-0.27	-2.45	4.03	0.00	931.58
GENERAL INDUSTRIALS	1101.10	+0.17	+1.90	2.43	0.55	1125.07
Aerospace & Defence	803.81	-3.74	-31.24	2.05	0.00	814.91
Diversified Industrials	958.23	+0.06	+0.58	2.10	0.00	980.15
Electronic & Elect Equip	1006.14	+0.01	+0.06	1.85	0.18	1011.81
Engineering & Machinery	970.12	+1.20	+11.49	3.74	1.65	985.17
CYCLICAL CONS GOODS	1295.64	+0.59	+7.60	2.54	0.00	1331.28
Automobiles	983.12	+0.60	+5.79	2.41	0.00	972.05
Household Goods & Texts	1257.42	+0.51	+6.35	3.31	0.00	1268.16
NON-CYC CONS GOODS	1195.49	+0.05	+0.59	1.52	0.05	1228.43
Beverages	902.94	+0.19	+1.71	2.99	0.00	922.43
Food Producers & Process	884.38	-0.48	-4.18	1.75	0.00	894.77
Health	820.84	-1.49	-12.43	7.13	0.00	832.92
Packaging	789.05	-0.18	-1.46	1.14	0.00	790.03
Personal Care & Hse Prods	1100.89	+0.57	+6.23	0.88	0.00	1110.29
Pharmaceuticals	1098.39	+0.23	+2.57	1.17	0.00	1104.35
Tobacco	1397.97	-0.62	-8.72	2.84	1.42	1425.97
CYCLICAL SERVICES	1257.57	+0.12	+1.45	2.43	0.95	1295.38
Distributors	697.79	-0.01	-0.07	4.23	0.00	705.63
General Retailers	1015.01	+0.34	+3.43	3.13	1.06	1087.00
Leisure Entertnt & Hotels	888.42	-0.64	-5.69	2.29	6.02	906.90
Media & Photography	1155.40	+0.37	+4.22	1.97	0.00	1167.74
Rests, Pubs & Breweries	797.54	-0.29	-2.32	3.49	2.64	823.48
Support Services	1073.10	+0.43	+4.62	1.38	0.00	1084.48
Transport	952.23	-0.73	-7.01	2.62	1.81	971.61
NON-CYCLICAL SERVS	1333.04	+2.30	+29.97	1.50	0.44	1372.51
Food & Drug Retailers	1034.80	+1.54	+15.74	2.00	0.51	1051.11
Telecommunications Servs	1317.85	+2.47	+31.78	1.41	0.39	1337.88
UTILITIES	1460.17	-0.29	-4.25	3.05	3.35	1552.07
Electricity	1124.41	+0.18	+2.06	3.14	3.42	1163.90
Gas Distribution	1161.44	-1.54	-18.16	1.64	1.00	1279.83
Water	949.54	-0.95	-9.15	5.30	0.00	994.43
FINANCIALS	1254.76	+1.99	+24.54	2.67	0.23	1289.24
Banks	872.08	+2.69	+22.87	3.48	0.28	884.77
Insurance	988.93	+1.09	+10.48	1.45	0.00	980.62
Life Assurance	1126.52	+1.71	+18.95	1.75	0.00	1141.15
Investment Companies	980.96	+0.98	+9.30	1.81	0.00	1004.49
Real Estate	708.13	-0.47	-3.31	3.47	0.00	716.32
Speciality & Other Fin	883.44	-0.44	-3.92	2.55	0.00	898.19
INFORMATION TECH	902.88	+1.86	+16.52	0.69	0.04	905.07
Information Tech Hardware	953.92	+2.32	+21.62	0.76	0.00	956.19
Software & Computer Serv	786.69	+0.59	+4.58	0.48	0.15	788.70

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FTSE EUROTOP 300

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Feb 12		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA
Europe												
Czech Rep.	(Koruna)	37.9048	+0.2570	727 - 368	37.9400	37.6540	38.0532	-4.7	38.3996	-5.2	39.8794	-5.2
Denmark	(DKr)	7.4350	-0.0028	325 - 374	7.4374	7.4325	7.4370	-0.5	7.4442	-0.5	7.4709	-0.5
Greece	(Dr)	321.897	-0.1720	671 - 123	322.200	321.478	323.4828	-5.9	326.9504	-6.3	340.3785	-5.7
Hungary	(Forint)	249.582	-0.0140	425 - 739	249.780	248.130	252.2144	-12.7	257.2421	-12.3	277.9332	-11.4
Norway	(NKr)	8.5972	-0.0361	906 - 038	8.6401	8.5630	8.6274	-4.2	8.6827	-4.0	8.8380	-2.8
Poland	(Zloty)	4.2507	+0.0141	443 - 571	4.2571	4.2143	-	-	-	-	-	-
Romania	(Leu)	13730.97	-87.7400	034 - 160	-	-	-	-	-	-	-	-
Russia	(Rouble)	26.0991	-0.0112	250 - 132	26.1132	25.9453	-	-	-	-	-	-
Slovakia	(Koruna)	42.9608	+0.1269	221 - 994	43.0700	42.3345	-	-	-	-	-	-
Sweden	(SKr)	8.8927	-0.0165	855 - 999	8.9482	8.8855	8.8939	-0.2	8.8985	-0.2	8.9105	-0.2
Switzerland	(SFr)	1.5963	-0.0025	954 - 971	1.6020	1.5949	1.5938	1.9	1.5890	1.8	1.5717	1.5
UK	(£)	0.6922	-0.0026	919 - 924	0.6939	0.6887	0.6934	-2.1	0.6960	-2.2	0.7064	-2.1
Americas												
Argentina	(Peso)	1.1272	-0.0025	270 - 274	1.1280	1.1209	-	-	-	-	-	-
Brazil	(R$)	2.1485	+0.0076	424 - 545	2.1782	2.1196	-	-	-	-	-	-
Canada	(C$)	1.6846	+0.0036	837 - 855	1.6855	1.6731	1.6871	-1.8	1.6929	-1.9	1.7181	-2.0
Mexico	(New Peso)	11.2442	-0.0522	365 - 518	11.2521	11.1701	11.4800	-25.2	11.9825	-26.3	13.9918	-24.4
USA	($)	1.1276	-0.0020	278 - 280	1.1286	1.1215	1.1294	-1.7	1.1331	-1.9	1.1516	-2.1
Pacific/Middle East/Africa												
Australia	(A$)	1.7449	+0.0074	438 - 459	1.7550	1.7327	1.7471	-1.5	1.7521	-1.7	1.7774	-1.9
Hong Kong	(HK$)	8.7402	-0.0143	383 - 420	8.7420	8.7031	8.7619	-3.0	8.8147	-3.4	9.1508	-4.7
India	(Rs)	47.8765	-0.0913	666 - 864	47.9339	47.6009	48.1799	-7.6	48.9287	-8.8	52.6614	-10.0
Indonesia	(Rupiah)	9811.87	-16.5780	374 - 000	9871.80	9779.70	10068.26	-31.4	10707.85	-36.5	13070.78	-33.2
Israel	(Shk)	4.5795	-0.0236	730 - 859	4.6081	4.5537	-	-	-	-	-	-
Japan	(Y)	128.913	-0.2180	862 - 964	129.909	128.000	128.6234	2.7	128.0205	2.8	125.4150	2.7
Malaysia	(M$)	4.2856	-0.0075	229 - 250	4.2883	4.2619	-	-	-	-	-	-
New Zealand	(NZ$)	2.0528	+0.0063	509 - 546	2.0592	2.0322	2.0538	-0.6	2.0582	-1.1	2.0876	-1.7
Philippines	(Peso)	43.4204	-0.0186	435 - 972	43.6204	43.0085	43.7255	-8.4	44.4068	-9.1	47.7258	-9.9
Saudi Arabia	(SR)	4.2298	-0.0073	285 - 311	4.2329	4.2084	4.2408	-3.1	4.2684	-3.7	4.3984	-4.0
Singapore	(S$)	1.9071	+0.0001	064 - 077	1.9077	1.9013	1.9058	0.8	1.9030	0.9	1.9053	0.1
South Africa	(R)	6.8798	+0.0302	727 - 864	6.8925	6.8147	6.9484	-11.7	7.0819	-11.8	7.8488	-11.1
South Korea	(Won)	1325.79	-2.0600	425 - 732	1327.32	1324.25	-	-	-	-	-	-
Taiwan	(T$)	36.4280	-0.0743	651 - 908	36.4908	36.2100	36.6195	-6.3	36.9108	-5.9	37.9858	-4.3
Thailand	(Bt)	41.8497	-0.1511	859 - 134	41.7134	41.4949	41.7807	-3.8	42.1400	-4.7	43.8530	-5.3
UAE	(Dirham)	4.1425	-0.0070	414 - 435	4.3350	4.13080	4.1485	-1.7	4.1630	-2.0	4.2351	-2.2

Euro Locking Rates: Austrian Schilling 13.7603, Belgium/Luxembourg Franc 40.3399, Finnish Markka 5.94573, French Franc 6.55957, German Mark 1.95583, Irish Punt 0.787564, Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Spanish Peseta 166.386. Bid/offer spreads in the Euro Spot table show only the last three decimal places. Bid, offer, mid spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.

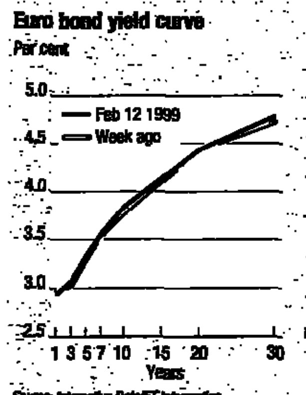
BONDS

INTEREST RATE SWAPS

Feb 12	Euro-E Bid	Euro-E Ask	Euro-L Bid	Euro-L Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.09	3.12	3.09	3.12	5.22	5.25	5.21	5.24	0.42	0.45
2 year	3.11	3.15	3.11	3.15	5.08	5.11	5.33	5.36	0.59	0.62
3 year	3.25	3.29	3.25	3.29	5.08	5.12	5.42	5.45	0.89	0.92
4 year	3.41	3.45	3.41	3.45	5.09	5.13	5.48	5.51	1.20	1.23
5 year	3.56	3.60	3.56	3.60	5.09	5.13	5.55	5.58	1.48	1.51
6 year	3.71	3.75	3.71	3.75	5.10	5.14	5.60	5.63	1.72	1.75
7 year	3.85	3.89	3.85	3.89	5.11	5.15	5.65	5.69	1.94	1.97
8 year	3.97	4.01	3.97	4.01	5.12	5.16	5.69	5.72	2.11	2.14
9 year	4.08	4.12	4.08	4.12	5.14	5.18	5.73	5.76	2.25	2.28
10 year	4.16	4.20	4.16	4.20	5.15	5.19	5.77	5.80	2.36	2.39
12 year	4.31	4.35	4.31	4.35	5.17	5.22	5.83	5.86	2.58	2.61
15 year	4.51	4.55	4.51	4.55	5.18	5.23	5.95	5.98	2.78	2.83
20 year	4.72	4.76	4.72	4.76	5.17	5.23	6.06	6.09	2.97	3.02
25 year	4.83	4.87	4.83	4.87	5.16	5.23	6.06	6.09	3.07	3.12
30 year	4.90	4.94	4.90	4.94	5.15	5.23	6.06	6.09	3.12	3.18

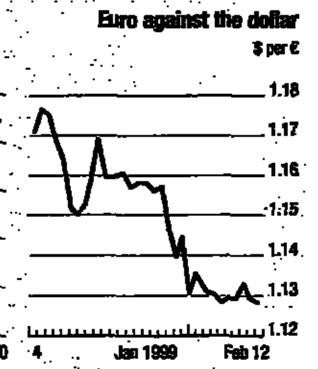
Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor. Euro quoted on annual bond 30/360 basis against 6 month Euribor and Libor with the exception of the 1 year rate which is quoted against 3 months Euribor and Libor. Source: Intercapital Brokers Ltd.

Euro bond yield curve



Source: Interactive Data/FT Information

Euro against the dollar



EURO-ZONE BONDS

Feb 12	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ SOVEREIGNS								
UK	01/01	4.250	AAA	102.080	3.13	+0.03	+0.07	+0.14
Denmark	01/02	4.750	AA+	104.098	3.24	+0.05	+0.08	+0.16
Sweden	02/01	6.000	AA+	103.490	3.15	+0.03	+0.06	+0.18
Greece	11/06	6.750	BBB	115.265	4.38	+0.05	+0.11	+0.82
■ SUPRANATIONALS								
ADB	10/07	5.500	AAA	108.520	4.29	+0.08	+0.17	+0.63
EIB	04/08	5.000	AAA	107.353	4.02	+0.06	+0.22	+0.28
Eurofima	12/09	5.625	AAA	110.197	4.42	+0.05	+0.19	+0.58
World Bank	04/05	7.125	AAA	118.120	3.77	+0.04	+0.06	+0.32
■ UTILITIES								
EDF	10/03	3.750	n/a	101.406	3.42	+0.04	+0.04	+0.22
TEPCO	02/03	4.750	AA	103.589	3.77	+0.04	+0.08	+0.57
Quebec Hydro	03/08	5.375	A+	105.884	4.57	+0.08	+0.12	+0.81
Norsk Hydro	10/99	7.250	A	102.257	3.51	-0.03	-0.03	+0.58
■ FINANCIALS								
Bad Wurtt	02/10	5.375	AAA	108.942	4.33	+0.05	+0.06	+0.43
OKB	09/07	5.750	AAA	111.900	4.07	+0.05	+0.12	+0.41
Credit Local	04/08	5.250	AA+	106.728	4.34	+0.05	+0.16	+0.58
Abbey Natl	01/09	5.000	AA-	102.685	4.65	+0.05	+0.12	+0.81
■ INDUSTRIALS								
Unilever	10/01	5.125	AAA	104.304	3.39	+0.04	+0.10	+0.40
McDonalds	03/08	5.125	AA	106.016	4.31	+0.06	+0.50	+0.55
Philip Morris	06/08	5.625	A	105.979	4.81	+0.05	+0.10	+1.05
BAT Int Fin	07/08	5.375	A-	103.377	4.82	+0.05	-0.02	+1.26
■ PFANDBRIEFE								
Rhein Hypo	12/01	5.500	n/a	105.951	3.23	-0.01	-0.06	+0.24
Eurohypo AG	01/04	5.000	n/a	106.641	3.50	-0.02	-0.02	+0.17
Bayer Vereins	01/06	6.000	n/a	113.280	3.78	-0.03	+0.01	+0.22
Depfa	07/08	4.750	n/a	105.101	4.08	-0.03	+0.03	+0.32
■ HIGH YIELD								
Geberit	04/07	10.125	B+	108.813	8.32	+0.11	+0.21	+4.66
Colt Telecom	11/07	8.875	n/a	108.073	7.90	+0.08	-0.63	+4.24
Impress Metal	05/07	9.875	B	102.089	9.50	+0.07	+1.60	+5.84
Remy Cointreau	07/05	10.000	B+	94.361	11.25	+0.07	-0.78	+7.80

Standard & Poor's ratings. Source: Interactive Data/FT Information.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
Allied Domecq	N	456xd	-4.0	025.33	1.5	4,759	2.11	2323
Bulmer (HP)		283½xd	-2	15.8	1.5	149.7	11.1	2005
Burn Stewart		14	—	-	-	8.39	10'97	1516
Diageo		649½	-2.0	019.6	1.5	22,295	5.10	2791
Glenmorangie A	†	718	10.9	14.45	2.5	65.6	21.12	3257
B	†	827½	—	7.22	2.5	33.1	21.12	3258
Highland		282½	-4	6.95	2.3	337.3	7.12	2880
5¾pc Cv Sb Bd		85¼	—	Q5¾%	-	48.1	11.7	2823
Kirin Y		749¼xd	1.0	Q24%	1.7	7,708	25.12	1118
Merrydown		28½	-5.4	-	-	7.02	7'97	3352
Seagram C$		£29½	5.5	Q66c	-	10,364	28.8	-

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

	Notes	Price	Wk % chnge	Div net	Dividends paid	Mkt cap£m	Last xd	City line
Approved by the Inland Revenue								
Aberdeen Emg Asia	♣	23½	–	–	–	9.69	–	1461
Atlantis Japan Gwth Fd		28½	2.7	–	–	53.7	–	2352
Warrants		5½	0.6	–	–	0.23	–	2368
Baring Emrg Euro	♣	38¾	0.9	–	–	127.8	10'94	[illegible]
Warrants		53½	1.7	–	–	13.2	–	[illegible]
Brazilian IT	♣	38¼	0.6	61.1	Jul Dec	22.1	30.11	2590
Warrants		9	0.8	–	–	1.71	–	2066
Central Euro Gwth	♣	44¼	1.1	–	–	50.9	3'96	4151
Warrants		8½	–	–	–	0.29	–	4167
East German		12¾	4.9	–	–	0.58	3'93	3466
Egypt Trust $		717½	–.1	628c	Feb	71.7	8.2	–
F&C Latin American $	♣	71¼	2.8	–	–	64.6	–	3665
Warrants		32¾	2.5	–	–	4.83	–	3475
1st Russian Frontiers $	♣	20½	8.9	–	–	18.6	–	4798
Warrants		7	33.3	–	–	0.64	–	4799
Warrants II		32½	40.0	–	–	0.35	–	1198
Flag Assets Chile		104¼	7.2	–	–	–	–	1213
Warrants		1	0.8	–	–	0.82	–	4695
Gowett Asian Smlr	♣	61¼	1.2	0.54	May	23.6	6.4	2429
Hambros Smlr Asian Cos	♣	25½	1.5	0.9c	Apr	12.5	9.11	4882
Warrants		3	9.1	–	–	0.36	–	4885
Indonesia Fund		130½	0.6	–	–	13.9	–	2926
Warrants		3	0.6	–	–	0.16	–	2984
Israel Fund $		49½	2.5	–	–	97.9	3'95	4157
Korea-Europe $	♣	195¼	2.2	40a	Oct	89.2	9'97	5049
Korea Liberal $		119¾	6.0	–	–	14.6	7'92	–
Warrants		15¼	0.6	–	–	0.18	–	–
Lazard Brits India	♣	35	5.3	–	–	19.2	–	4867
Warrants		6½	0.6	–	–	0.67	–	4868
Schroder Korea Fd $	♣	322¼	–4.0	–	–	21.3	–	2247

Net asset values supplied by Lipper as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

[illegible]

Net asset values supplied by Lipper as a guide only. See guide to London Share Service

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

	Notes	Price	Wk % chnge	Div net	Div cvr	Mkt cap£m	Last xd	City line
FTSE 100 TRAKS		[illegible]	–	–	–	–	–	–

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the Official List.

[illegible]

AIM - Continued

[illegible]

	Notes	Price	Wk % chnge	Div net	Div cvr	Mkt cap£m	Last xd	City line
VI		18	6.7	–	–	3.28	–	1718
Victory Corpn	♣	6½	–10.3	–	–	28.5	–	1495
Virtual Internet		179	–3.2	–	–	39.6	–	1576
WMI	♣	33	–8.4	–	–	0.47	9'81	4487
Weather Action		52½	—	–	–	3.82	–	2344
Weeks Group	♣	2¼xd	—	0.11	2.0	3.21	25.1	1258
West 175 Ests	♣	45	—	–	–	2.48	–	1868
West Bromwich Albion		2115	—	–	–	8.38	–	1891
Western Select	♣†	8¾	–2.9	0.25	1.2	3.59	9.11	4461
Westmount Energy	♣	17½	—	–	–	1.56	–	6413
Wilington		78	—	0.6	2.7	6.38	–	1791
Winchester		66½	6.5	–	–	8.94	–	6193
World Telecom	♣	67	–5.6	–	–	16.0	–	1212
Xavier Computer		14¼	—	–	–	14.1	–	1684
Yeoman		58½	—	–	–	4.45	–	2881

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE index constituents and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS").

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market capitalisations shown are calculated separately for each line of stock quoted.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated sea-listed companies.
- # Price at time of suspension
- , Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. i Dividend adjusted for complex issue. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend includes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.

v Dividend includes amount payable after 6/4/99. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1998-99. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1999. K Dividend based on prospectus or other official estimates for 1998. L Estimated annualised dividend. Cover based on latest annual earnings.

M Dividend based on prospectus or other official estimates for 1997-98. ‖ Dividend is paid in whole or part as a FID (Foreign Income Dividend). P Dividend adjusted for consolidation or share split. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: ₓd ex dividend; ₓc ex scrip issue; ₓr ex rights; ₓa ex all; ₓd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Yeoman II Inc, Do Cap, Do Equity Units and Do Zero Div Prf (InTr), Baring Chrysalis Fund and Shabo Fund (InCo), Cathay Pacific (Trns). Deletions: Bowser Homes (Cnst), Aztec (BSB) (E&EE), BTR Warrants 1999 (Eng), Environmental Inv (InCo), Abbott Mead Vickers (Med), Atlantic Richfield (Oil), Bilton and City Site Estates (Prop), Frontline (Trns), Chase Manhattan (Amer), Anglo American Inds (SthA).

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You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the Internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls are charged at 50p per minute at all times. An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial information obtained via FT Cityline before making any investment decision. All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request. Call 0171 873 4378 for more information on FT Cityline.

For Retail Price Index details call 0891 43 0005.

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

FT MANAGED FUNDS SERVICE

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

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Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 50p per minute at all times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

Barclays International Funds

Minerals, Oils Res. Shrs. Fd. Inc.

Edinburgh Global SICAV (u)

Lloyds Bank Luxembourg

Schroder International Selection Fd (u)

BNP - Contd.

INVESCO International Limited

Scudder Global Opportunities Funds - Contd.

LUXEMBOURG (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

OTHER OFFSHORE FUNDS

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Feb 12 / 1 € = 13.7603 Sch)

BELGIUM/LUX (Feb 12) 1 € = 40.3399 Frs.

GERMANY (Feb 12) 1 € = 1.95583 Dm.

FINLAND (Feb 12) 1 € = 5.94573 Mks

FRANCE (Feb 12) 1 € = 6.55957 Frs.

NETHERLANDS (Feb 12) 1 € = 2.20371 Fl.

IRELAND (Feb 12) 1 € = 0.787564 Punt

ITALY (Feb 12) 1 € = 1936.27000 Lire

PORTUGAL (Feb 12) 1 € = 200.48200 Esc.

SPAIN (Feb 12) 1 € = 166.38600 Pts.

EUROPE (NON-EMU)

CZECH REP (Feb 12 / Koruna)

DENMARK (Feb 12 / Kr)

GREECE (Feb 12 / Drachma)

NORWAY (Feb 12 / Kroner)

POLAND (Feb 12 / Zloty)

SWEDEN (Feb 12 / Kronor)

SWITZERLAND (Feb 12 / Frs.)

TURKEY (Feb 12 / TL Lira)

PACIFIC

JAPAN (Feb 12 / Yen)

AUSTRALIA (Feb 12 / Aust$)

HONG KONG (Feb 12 / H.K.$)

INDONESIA (Feb 12 / Rupiah)

MALAYSIA (Feb 12 / MYR)

NEW ZEALAND (Feb 12 / NZ $)

SINGAPORE (Feb 12 / S$)

SOUTH KOREA (Feb 12 / Won)

TAIWAN (Feb 10 / TW $)

THAILAND (Feb 12 / Baht)

AMERICAS

CANADA

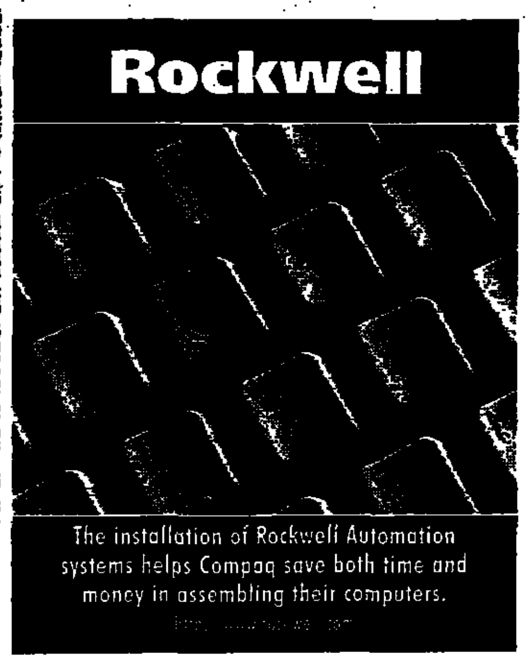
TORONTO (Feb 12 / Can $)
4 pm close

MONTREAL (Feb 12 / Can $)
4 pm close

MEXICO (Feb 12 / Peso)
12.30 pm

AFRICA

SOUTH AFRICA (Feb 12 / Rand)



FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY FEBRUARY 12 1999 US Dollar Index	% chg since 31/12/98	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg from 31/12/98	Gross Div. Yield	THURSDAY FEBRUARY 11 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	213.79	-7.3	194.52	154.47	218.29	219.99	1.8	3.34	213.42	194.86	154.20	217.55	216.31	219.96	163.66	210.51
Austria (27)	174.78	-5.2	159.02	126.28	157.47	157.47	-1.3	2.11	174.56	159.21	126.12	157.00	157.00	253.73	165.27	197.62
Belgium (22)	398.28	-4.9	362.38	287.77	351.33	351.33	-1.0	1.92	394.64	359.95	285.13	347.53	347.53	446.95	273.46	274.13
Brazil (29)	107.31	-19.2	97.64	77.54	109.57	376.29	27.3	5.17	109.01	99.43	78.76	111.12	380.24	269.34	89.32	235.19
Canada (113)	204.62	2.6	186.18	147.85	208.93	221.32	-0.2	1.79	207.70	189.44	150.06	211.71	223.75	248.78	159.94	221.57
Denmark (34)	461.50	-7.7	419.90	333.45	471.21	413.79	-4.4	1.71	468.24	427.07	338.31	477.29	419.27	537.33	420.12	461.78
Finland (28)	608.75	5.8	553.88	439.84	673.54	673.54	10.2	1.86	597.29	544.78	431.55	659.74	659.74	661.25	322.57	322.57
France (74)	320.58	-2.0	291.68	231.63	292.49	292.49	2.0	2.10	321.85	293.37	232.39	292.97	292.97	354.45	246.64	248.64
Germany (55)	262.48	-6.6	238.82	189.65	236.65	236.65	-2.7	1.39	260.40	237.51	188.14	234.38	234.38	325.61	226.35	243.53
Greece (36)	423.07	21.6	384.94	305.69	431.98	865.62	24.0	0.99	415.04	378.55	299.87	423.06	848.18	423.07	211.47	-
Hong Kong, China (65)	278.83	-8.3	253.69	201.46	284.70	277.42	-8.3	4.40	270.48	246.70	195.42	275.70	269.09	362.55	196.64	344.33
Indonesia (24)	48.69	-2.9	44.30	35.18	49.71	259.85	5.3	1.19	48.92	44.62	35.35	49.87	261.11	64.62	19.04	50.46
Ireland (14)	548.49	-0.5	499.05	396.30	539.71	539.71	3.6	1.77	534.70	487.69	386.32	525.25	525.25	605.85	386.15	444.35
Italy (53)	164.66	-8.0	149.81	118.97	211.12	211.12	-4.2	1.47	163.19	148.84	117.91	208.89	208.89	192.64	128.68	134.41
Japan (445)	99.44	-1.1	90.48	71.85	101.54	71.85	0.3	1.04	98.83	90.14	71.40	100.74	71.40	109.33	76.83	109.33
Mexico (29)	1186.07	3.9	1079.16	856.98	1211.04	12929.00	4.7	1.98	1185.31	1081.10	856.39	1208.21	12958.28	1733.73	787.15	1575.57
Netherlands (26)	490.48	-7.4	446.27	354.39	437.43	437.43	-3.8	2.17	485.86	443.14	351.03	432.57	432.57	552.73	394.92	421.35
New Zealand (18)	65.75	11.4	59.82	47.51	67.13	63.55	7.1	4.60	64.87	59.16	46.87	66.12	62.33	77.84	45.66	77.83
Norway (37)	236.43	7.7	215.12	170.83	241.41	244.63	7.8	2.35	234.71	214.07	169.58	239.24	243.50	357.71	181.86	297.25
Philippines (22)	84.91	-6.0	77.26	61.35	86.70	162.91	-7.0	1.00	83.96	76.57	60.66	85.58	160.87	106.98	42.48	92.26
Portugal (18)	254.92	-0.8	231.94	184.19	310.17	310.17	3.3	1.06	256.72	234.15	185.48	311.83	311.83	299.39	194.13	-
Singapore (40)	197.21	-8.8	179.43	142.49	201.36	153.68	-8.5	1.82	197.72	180.34	142.85	201.54	153.80	246.74	102.45	218.87
South Africa (36)	193.64	5.0	176.18	139.91	197.72	258.18	8.9	3.44	193.60	176.58	139.88	197.35	258.55	346.20	151.55	272.75
Spain (30)	381.53	-4.8	347.14	275.67	426.43	426.43	-0.7	1.89	379.65	346.27	274.90	423.61	423.61	435.19	290.81	300.54
Sweden (43)	522.64	4.1	475.53	377.63	533.64	610.07	1.3	1.90	518.53	472.95	374.64	528.55	603.35	628.19	379.18	493.31
Switzerland (30)	393.66	-6.1	358.16	284.42	401.93	346.42	-2.2	1.24	390.21	355.91	281.93	397.75	342.36	441.85	307.73	375.17
Thailand (31)	21.91	-7.8	19.94	15.83	22.37	31.41	-8.1	2.81	18.79	17.14	13.58	19.16	26.99	33.84	8.15	30.98
United Kingdom (201)	377.81	-0.1	343.58	272.84	385.58	343.58	1.9	2.83	372.87	340.08	269.40	380.07	340.08	401.84	307.96	355.31
USA (613)	507.22	0.1	461.50	366.48	517.90	507.22	0.1	1.29	517.24	471.77	373.71	527.23	517.24	527.72	390.12	418.34
Americas (784)	460.22	0.1	409.63	325.30	459.69	382.14	0.2	1.33	458.98	418.63	331.62	467.85	389.52	467.90	347.59	379.00
Europe (723)	350.42	-2.9	318.84	253.19	357.80	328.06	0.1	2.08	347.50	316.95	251.07	354.22	323.32	398.24	262.63	308.32
Eurobloc (342)	100.67	-6.0	91.60	72.74	98.24	98.24	-7.3	1.78	100.08	91.28	72.31	97.50	97.50	113.92	81.53	-
Nordic (143)	500.49	2.7	455.37	361.62	511.02	506.29	3.0	1.84	496.84	453.18	358.97	506.44	502.39	536.97	360.04	433.34
Pacific Basin (721)	106.94	-1.1	97.30	77.27	109.19	80.14	-0.5	1.67	106.11	96.78	76.67	108.16	79.46	118.46	82.88	718.46
Euro-Pacific (1444)	208.12	-2.4	189.36	150.38	212.50	172.52	-0.1	1.93	206.42	188.27	149.14	210.41	171.06	221.79	168.00	198.06
North America (726)	486.77	0.2	442.89	351.70	497.01	487.49	0.1	1.31	496.30	492.67	358.58	505.89	496.97	506.48	374.92	405.78
Europe Ex. UK (522)	325.21	-4.2	295.89	234.97	332.05	307.74	-0.9	1.70	323.19	294.77	233.50	329.43	305.43	366.32	260.93	277.67
Europe Ex. Eurobloc (381)	96.33	-0.7	87.65	69.60	98.36	96.90	1.3	2.39	95.28	86.91	68.84	97.12	96.00	103.99	77.40	-
Europe Ex. UK Ex. Eurobloc (180)	96.59	-1.7	87.89	69.79	98.63	93.96	-0.1	1.45	95.88	87.45	69.28	97.73	93.25	109.21	75.16	-
Pacific Ex. Japan (276)	179.95	-1.1	163.73	130.02	183.74	181.64	-3.2	3.60	177.42	161.82	128.19	180.85	178.51	216.04	128.26	205.22
World Ex. Eurobloc (1921)	104.53	-0.2	95.11	75.53	106.73	103.13	0.3	1.57	105.95	96.27	76.26	107.59	104.14	108.05	83.09	-
World Ex. US (1650)	207.51	-2.2	188.80	149.93	211.88	177.49	0.1	1.98	206.06	187.94	148.88	210.04	176.17	221.91	165.85	201.24
World Ex. UK (2062)	297.05	-1.1	270.27	214.63	303.30	265.79	-0.1	1.46	299.90	273.53	216.68	305.69	268.20	311.48	236.11	263.15
World Ex. Japan (1818)	405.79	-1.0	369.21	293.20	414.33	397.93	0.1	1.67	409.37	373.38	295.77	417.28	401.34	427.99	320.58	352.12
The World Index (2263)	304.00	-1.0	276.60	219.65	310.40	272.94	0.1	1.80	306.22	279.30	221.25	312.14	274.89	318.51	242.36	270.97

 CONSTITUENT CHANGES DURING THE WEEK ENDING 12/2/99: Addition: Quest AV (Large Cap) (France). Deletion: Anglo American Industrial Corporation (South Africa). Name changes: Degussa to Degussa Huels (Germany) and Mission Industries to Reliant Energy (US).

Emerging markets:

IFC investable indices

Dollar terms

Feb 11 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	759.54	+7.1	-4.9
Brazil	224.81	+1.9	-18.3
Chile	486.69	+2.1	+3.4
Colombia[1]	365.16	+1.9	-16.9
Mexico	500.94	+4.6	+4.0
Peru[2]	133.46	+0.1	-0.7
Venezuela[3]	379.05	-1.0	-16.4
East Asia			
China[4]	22.61	+0.4	-13.6
India[7]	89.39	+1.0	+8.1
Indonesia[5]	22.88	-0.3	-5.6
Korea[6]	49.04	+0.2	-7.5
Malaysia	87.40	+2.8	-1.3
Pakistan[8]	79.85	-1.8	-15.5
Philippines	115.76	+1.4	-6.0
Sri Lanka[10]	73.25	-0.2	-11.1
Taiwan, China[4]	108.03	-0.0	-6.7
Thailand	54.32	-0.2	-14.0
Europe			
Czech Rep	44.25	+1.5	-12.8
Greece	742.47	+2.6	+19.9
Hungary[11]	288.00	+1.5	+2.6
Poland[12]	537.42	+0.2	+2.8
Portugal	291.06	+0.9	-0.3
Russia	29.29	+8.4	+24.9
Slovakia	45.54	-0.8	+4.4
Turkey[14]	160.70	+1.7	+9.6
Mideast/Africa			
Egypt	75.01		+16.4
Israel	100.78	+0.5	-1.4
Jordan	227.02		+4.8
Morocco	172.34	-0.6	+2.8
S Africa[13]	133.46	+1.7	+6.6
Zimbabwe[9]	103.50	-0.6	-1.7
Regions			
Composite	185.07	+1.6	-0.9
Latin America	396.93	+2.6	-5.4
Asia	99.73	+0.2	-6.8
EMEA	122.98	+1.7	+7.4
Europe	163.98	+2.1	+9.5
Eastn Europe	61.12	+2.5	+5.1
ME & Africa	56.53	+1.2	+6.4
Comp + Malay	187.75	+1.7	-0.9
Asia + Malay	101.94	+0.8	-5.7

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 8 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1993; (11)Dec 31 1995; (12)Dec 31 1992; (13)Dec 31 1992; (14)Nov 1 1995
Latest indices were unavailable for this edition.

Prices supplied by Reuters Financial Television.
NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. * Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. § Priced in US $.

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4 pm close February 12

NEW YORK STOCK EXCHANGE PRICES

1998/99 High	Low	Stock	Div	Yld. %	P/E	Vol 100s	High	Low	Close Quote	Chge Prev. Close

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ¶ Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Feb 12	Feb 11	Feb 10	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9274.89	9363.46	9177.31	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	105.54	106.84	106.83	107.17 (9/12/98)	104.42 (11/5/98)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3098.89	3181.76	3119.20	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	288.44	291.47	293.98	328.51 (8/10/98)	262.56 (9/1/98)	328.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's High 9437.36 (9423.18) Low 9161.38 (9088.48) (Theoretical‡)
Day's high 9389.98 (9363.49) Low 9228.03 (9143.29) (Actual‡)

Standard and Poors	Feb 12	Feb 11	Feb 10	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1230.13	1254.04	1223.55	1279.64 (29/1/99)	927.69 (9/1/98)	1279.64 (29/1/99)	4.40 (1/6/32)
Industrials♥	1492.39	1521.87	1486.77	1551.86 (29/1/99)	1077.40 (9/1/98)	1551.86 (29/1/99)	3.52 (30/6/32)
Financial♥	127.27	129.60	124.78	147.88 (14/7/98)	95.80 (8/10/98)	147.88 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	581.46	589.74	578.81	611.06 (8/1/99)	477.20 (8/10/98)	611.06 (8/1/99)	4.64 (25/4/42)
Amex Comp	696.12	699.41	698.82	753.67 (22/4/98)	563.75 (8/10/98)	753.67 (22/4/98)	624.20 (16/7/98)
NASDAQ Cmp	2321.89	2405.56	2309.59	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (3/10/74)
Russell 2000	398.44	406.16	397.56	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Feb 5	Jan 29	Jan 22	Year ago
Dow Jones Ind. Div. Yield	1.65	1.64	1.67	1.69
	Feb 10	Feb 3	Jan 27	Year ago
S & P Ind. Div. yield	1.15	1.10	1.12	1.42
S & P Ind. P/E ratio	38.00	39.55	38.57	27.61

US DATA

MARKET ACTIVITY

Volume (million)	Feb 12	Feb 11	Feb 10
NYSE	686.158	815.890	722.863
Amex	25.851	30.223	25.851
NASDAQ	841.617	989.307	920.449

NYSE	Feb 12	Feb 11	Feb 10
Issues Traded	3,537	3,558	3,540
Rises	806	1,761	1,370
Falls	2,233	1,280	1,633
Unchanged	498	585	537
New Highs	16	21	20
New Lows	162	104	103

NYSE TRADING ACTIVITY

Volume : 686,156,000

ACTIVE STOCKS

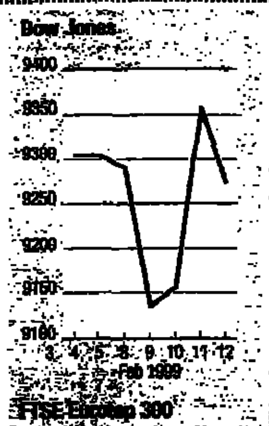
Friday	Stocks traded	Close price	Day's change
Compaq	12,951,300	43	–1⅞
PhilMorr	11,117,000	40¼	+⅛
Cendant	8,518,500	17	–1¼
AmOnLine	7,935,400	158⅛	–9¾
Citigrp	7,136,200	61¾	–1¼
Disney	6,615,300	35¼	+¾
Exxon	5,891,700	[illegible]	
LucentTch	5,695,600	98⅛	–⅞
HewPac	5,118,800	78¼	+1⅛
[illegible]	[illegible]	[illegible]	[illegible]

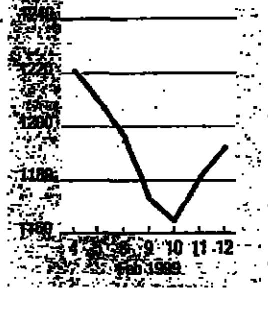
BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
[illegible]	102	+8⅞	+9.6
[illegible]	22¾	+1⅞	+8.1
[illegible]	19¼	+1¼	+6.9
[illegible]	12⅛	+¾	+6.6
Downs			
[illegible]	14	–2¼	–13.8
[illegible]	24¼	–2⅞	–9.9
[illegible]	11	–1⅛	–8.8
[illegible]	70½	[illegible]	–8.0

NASDAQ TRADING ACTIVITY

[illegible]





JAPAN

[illegible]

GERMANY

[illegible]

FRANCE

[illegible]

UK

[illegible]

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	1261.80	1262.50	+37.10	1265.80	1228.00	[illegible]	[illegible]
Jun	1264.20	1274.30	+37.40	1266.50	1241.00	[illegible]	[illegible]
Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	14000.0	13970.0	+10.0	14080.0	13880.0	[illegible]	[illegible]
Jun	13850.0	13840.0	+20.0	13950.0	13830.0	[illegible]	[illegible]

Open interest figures for previous day.

[illegible]

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close February 12

[illegible]

AMEX

4 pm close February 12

[illegible]

EASDAQ

[illegible]

FT GUIDE TO THE WEEK

MONDAY 15

Biosafety treaty

Government representatives meet in Cartagena, Colombia, over the next 10 days to adopt an international treaty regulating movements across frontiers of bio-engineered plants and other living organisms. The biosafety protocol to the United Nations biodiversity convention is aimed at reducing the risks of uncontrolled release of Living Modified Organisms into the environment. However, important issues remain to be resolved after two-and-a-half years of difficult negotiations. US business groups have opposed the proposed treaty which they argue will impose onerous and unnecessary controls on trade in LMOs.

Decommissioning deadlock

The parties at the Northern Ireland Assembly are scheduled to debate the proposed new Northern Ireland administration and proposals for the creation of an executive which will comprise 10 ministerial departments and six cross-border institutions. Although the proposals are expected to be endorsed, the issue of IRA decommissioning is expected to lead to deadlock and there are fears that the sides will be nowhere near meeting the 10 March deadline.

Banks benefit

Indonesia's government is scheduled to announce the names of banks to benefit from a recapitalisation scheme, designed to bail out the country's beleaguered banking sector. Officials have said the central bank and finance ministry would nominate 15 banks to receive capital in the form of government bonds, matching private investment at a ratio of four to one.

Holidays

Singapore, South Korea, Taiwan, Vietnam, Mauritius, Brazil, Canada, US, Venezuela.

TUESDAY 16

Holocaust funds

Gerhard Schröder, the German chancellor, is scheduled to meet chiefs of large German companies to discuss details of two funds to compensate victims of Nazi atrocities. One fund would make payments to victims, the other would pay for projects to ensure the Holocaust is not forgotten. Payments could begin in September.

Simpson sale

An auction of O. J. Simpson's possessions is scheduled to be held in Los Angeles as part of a court-ordered sale to meet a $32.5m judgment against him. The damages were assessed after a civil court jury found Simpson liable for the deaths of his former wife, Nicole Brown Simpson, and her companion, Ron Goldman.

British and US government negotiators meet on Wednesday to try to defuse the simmering row over flights and airport landing rights between the two countries

Seeking EU ties

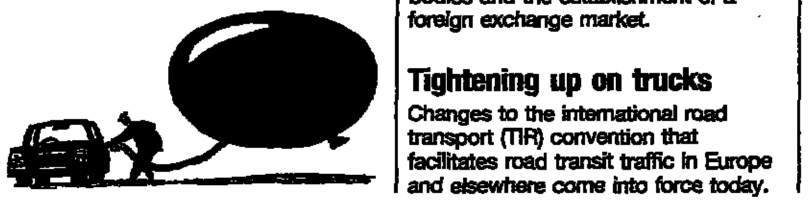
The recently-elected centre-right prime minister of Macedonia, Ljubco Georgiewski, visits the European Commission in Brussels, where he is to meet Jacques Santer for talks on economic aid and development and political ties.

Greenland poll

A parliamentary election is scheduled to take place in the Danish overseas province of Greenland. The Inatsi-satut, *the parliament, has 31 members* elected for a four-year term. After the last election in March 1995 the government was formed by the social democratic Siumut (Forward) party and the liberal Atssut (Feeling of Community) party.

Going with gas

The European Natural Gas Vehicle Association sponsors a discussion with representatives of the European Commission on the development of a European policy on alternative fuels, energy efficiency and sustainability.



Holidays

China, Hong Kong, Malaysia, Singapore, South Korea, Taiwan, Vietnam, Mauritius, Lithuanlua, Brazil, Venezuela.

WEDNESDAY 17

Trade row rumbles on

The dispute settlement body of the World Trade Organisation meets in *Geneva amid continuing trade tension* between the US and the European Union. Among the transatlantic disputes featuring on the agenda are the EU's ban on hormone-treated beef, US preparations to impose trade sanctions on the EU over its banana *import regime*, and US *anti-subsidy* duties on steel imported from the UK.

Fund flies in

A delegation from the International Monetary Fund is scheduled to arrive in Baghdad. The group is expected to meet officials to discuss support for the reconstruction of administrative bodies and the establishment of a foreign *exchange* market.

Tightening up on trucks

Changes to the international road transport (TIR) convention that facilitates road transit traffic in Europe and elsewhere come into force today. The changes are designed to cut abuse of the system through fraud and smuggling, now increasingly in the control of organised crime. From today road hauliers will be subject to vetting before they can use the system, and co-ordination between the 62 member countries will be improved. Nearly 3m *transport operations are registered* each year under the TIR convention, which is administered by the Geneva-based United Nations Economic Commission for Europe.

Nordic summit

A conference of Nordic foreign ministers is held in Reyljavik. Daniel Tarschys, secretary-general of the Council of Europe, is scheduled to deliver a keynote speech.

Duel in the air

British and US government negotiators are scheduled to hold talks in the latest effort to defuse the simmering row over flights and airport landing rights between the two countries.

Farm fund talks

The United Nations International Fund for *Agricultural Development* (Ifad) begins an annual two-day meeting of its governing council in Rome. The 161-strong council will discuss the replenishment of the fund's resources and consider a progress report on a global financial mechanism that was *set up recently to co-ordinate* funds to fight land degradation. Ifad funds development projects that help poor farmers.

Holidays

China, Hong Kong, Malaysia, Singapore, South Korea, Taiwan, *Vietnam, Brazil.*

THURSDAY 18

Yeltsin hosts EU heads

A European Union-Russia summit opens in Moscow (to February 19). Boris Yeltsin, the president, has scheduled meetings with German Chancellor Gerhard Schröder and European Union officials.

Spotlight on blindness

The Geneva-based World Health Organisation and a group of non-governmental organisations launch Vision 2020 - a campaign to eliminate avoidable blindness. According to the WHO, there are nearly 45m blind people around the world and almost 135m with low vision. Cataract, *trachoma, onchocerciasis* and glaucoma are among the main causes.

Brazilian fallout

Roque Fernandez, Argentina's economy minister, visits London to *discuss with economic officials and top* bankers the effects of Brazil's recent devaluation on Argentina. He will travel to Frankfurt on February 19.

Holidays

China, Hong Kong, Taiwan, Vietnam, Gambia.

SATURDAY 20

G-7 supervision talks

Finance ministers of the Group of Seven leading industrial nations meet near Bonn to discuss a report which includes supervision of financial institutions and speculative hedge

funds. Hans Tietmeyer, Bundesbank president, has been asked by the G-7 to draw up a report on control and supervision of banks and hedge funds following recent financial market crises.

SUNDAY 21

EU conclave

European Union foreign ministers hold a "conclave" in Brussels in the hope of narrowing differences over the Agenda 2000 negotiations on reform of the EU's finances and its policies for *agriculture and the poorer regions.* The conclave will help prepare a special one-day summit of EU leaders near Bonn at the end of next week.

Board meeting

The Elite grandmaster tournament at Linares, Spain, gives Garry Kasparov's rivals another chance to dent the world chess champion's supremacy. India's Vishy Anand is world number two and already negotiating for a challenge to the Russian who has held the title since 1985. Britain's Michael Adams, 27, is the only west European in the eight-player field at Linares and has his best opportunity yet to establish himself as a championship contender. The dark horse is the youngest invitee, Peter Leko, 19, of Hungary, who is starting to make an impact against the world's top players (to March 10).

Friendship treaty

Igor Ivanov, Russia's foreign minister, is expected to pay a three-day visit to Japan. He will meet Masahiko Komura, Japan's foreign minister, to discuss a bilateral peace and friendship treaty the two countries have agreed to sign *by 2000.*

Holiday

Bangladesh.

Compiled by Roger Beale
Fax 44 171 873 3196

ECONOMIC DIARY

Other economic news

Tuesday: A reversal of December's pre-sale price increases should bring UK inflation back into line with its 2.5 per cent target, says HSBC. Japanese industrial production is believed to have risen 1.3 per cent in December from the previous month but fallen 6.4 per cent over the year.
Wednesday: France's trade surplus may have increased to FFr15.9bn during November after a dip in October. UK unemployment is likely to have risen by about 5,000 in January after falling in December. US industrial production is predicted to have fallen 0.5 *per cent in January*, following a 0.2 increase the previous month.
Thursday: The European *Central Bank meets.* A change in interest rates is unlikely.
Friday: The US trade deficit, ballooning as a result of soaring domestic demand, is expected to have deteriorated in December from the previous month's $15.5bn to $15.7bn. US consumer prices are *believed to have risen 0.2* per cent in January, against 0.1 per cent in December.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Singapore	Q4 gross domestic product**		-0.7%
Feb 15	Italy	Dec ind prod seasonally adjusted*	-0.72%	-1.5%
	Italy	Dec ind prod not-season'ly adjusted**		3.5%
Tue	Japan	Dec industrial production		1.3%
Feb 16	Japan	Dec shipments		1.4%
	Germany	Jan wholesale price index*	0.1%	0.4%
	Germany	Jan wholsale sale price index**	-4.3%	-4.5%
	UK	Jan retail price index*	-0.7%	0.0%
	UK	Jan retail price index**	2.3%	2.8%
	UK	Jan RPIX**	2.5%	2.6%
	UK	Jan EU harmonised cons'r price index		1.5%
	UK	Jan public sector NCR	-£10.0bn	£3.2bn
	Canada	Dec manufactured inventories*	0.4%	0.5%
	US	*BTM-Schroders Feb 13*		0.8%
	US	Redbook Feb 13		1.3%
	Japan	Money supply (M2 + CD)**	3.8%	3.9%
	Japan	Jan broad liquidity**		3.2%
Wed	UK	Jan unemployment	5.0k	-14.6k
Feb 17	US	Jan housing starts	1.68m	1.72m
	US	Jan building permits		1.72m
	US	Jan industrial production	UNCH	0.2%
	US	Jan capacity utilisation	80.6%	80.9%
	US	Jan export price index	UNCH	-0.1%
	US	*Jan import price index*	-0.1%	-0.7%
	Canada	Dec wage settlement**	1.4%	1.3%

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Thur	UK	Jan retail sales*	11.0%	-0.9%
Feb 18	UK	Jan retail sales**	0.6%	0.7%
	Canada	Jan consumer price index	0.1%	-0.3%
	Canada	Jan consumer price index**	0.6%	1.0%
	US	Jan producer price index	0.1%	0.4%
	US	Initial claims Feb 13	295k	281k
	US	State benefits Feb 6		2.26bn
	US	FReb Philadelphia Federal Index	+10.0	12.4
	US	M2 – week ended Feb 8	$6.0bn	$8.7bn
	Japan	Feb who'sale price index (1st, 10 days)		
Fri	US	Jan consumer price index	0.2%	0.1%
Feb 19	US	Jan cons'r price index ex food, energy	0.2%	0.3%
	US	Dec goods & services exported	$79.0bn	$78.7bn
	US	Dec goods & services imported	$94.4bn	$94.1bn
	Canada	Dec who'sale trade season'ly adjusted*	0.3%	-0.6%
	Canada	Dec who'sale inventories*	0.2%	0.0%
	US	Jan real earnings		0.5%
During the week...				
	Germany	*Dec capital account final*		DM25.8bn
	Germany	Dec foreign security purchase		DM89.9bn
	EMU	Nov trade except-EMU		E7.2bn
	EMU	Dec producer price index*		-0.3%
	Italy	Jan foreign exchange reserves		L60,000bn
	Italy	Jan M2, 3-month aveage**		5.5%

*month on month; **year on year. *Statistics, courtesy Standard & Poor's MMS.*

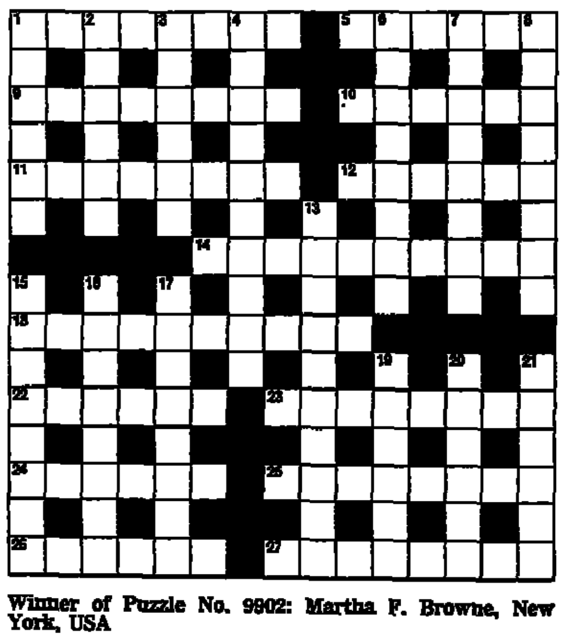
MONDAY PRIZE CROSSWORD

No.9,914 Set by GRIFFIN

A prize of a Tombow *Lucca* fountain pen and rollerball set, worth £125, will be awarded for the first correct solution opened. Solutions by Thursday February 25, marked Monday Crossword 9,914 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday March 1. Please allow 28 days for delivery of prizes.

Name.........................

Address.........................

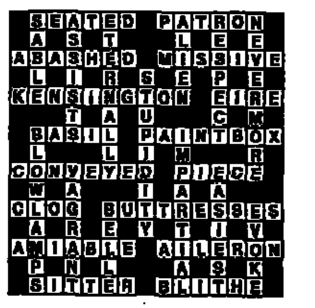


ACROSS
- 1, 5 Any a married son could give a hand (8,6)
- 9, 10 Card game with an understanding couple (8,6)
- 11 Foolish umpire writing after prizes (8)
- 12 Fellow is caught with a student of government finances (6)
- 14 Pine begins spreading around property (10)
- 18 Wasp I distracted in plant (10)
- 22, 23 Made late by some fighting? (6,2,6)
- 24 A crab I cooked and some tongue (6)
- 25 Mercenary letting the French back in.... (8)
- 26 ....declines to take the Spanish lorry driver (6)
- 27 Learned butcher said why cattle breed (8)

DOWN
- 1 Fill in revised copy with copper (6)
- 2 *In Abadan germs are a hazard* (6)
- 3 Iron CD, a product of Germanic people! (6)
- 4 Northern peer comes round about reward (10)
- 6 Information not initially given on old Bob's income (8)
- 7 Cure you take at home in sea water (frozen) (8)
- 8 Leaves music centre which is unwanted (8)
- 13 Heavy translation of the Latin "to err" (10)
- 15 Reluctant sponsor wants sketch returned (8)
- 16 What's overflowed from second sack (8)
- 17 He's consumed a seedy bar, which is sticky (8)
- 19 Seem upset about companion's plan (6)
- 20 After six a boy has one in sight! (6)
- 21 Costly *cunning*, a *killer* turns up inside (6)

Winner of Puzzle No. 9902: Martha F. Browne, New York, USA

Solution 9,902



JOTTER PAD